

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

IN THE MATTER of THE COMPANIES ACT 1931

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

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

AFFIDAVIT OF JONATHAN HALL

I, **JONATHAN HALL**, of Royal Court, Castletown, Isle of Man IM9 1RA **DO SWEAR
AND MAKE OATH AND SAY** as follows:

1. I am the general manager and a director of Friends Provident International Limited ("**Friends Provident**"), an unsecured creditor of Kaupthing Singer & Friedlander (Isle of Man) Limited (the "**Company**").
2. The statements contained in this affidavit are within my own knowledge and are true.
3. I have been provided with and have read materials provided including the first, second, third and fourth affidavits of David C Lovett, the first, second and third affidavits of Allan Robert Bell, the affidavit of Gabriel Moss QC and the exhibits to those affidavits.
4. I am of the view that a scheme of arrangement is preferable to a liquidation of the Company, because of the flexibility of a scheme of arrangement and the potentially accelerated timetable for distributions. Nevertheless, Friends Provident has a number of requests and concerns regarding the proposed scheme of arrangement.
5. Friends Provident's first and paramount concern is to ensure that the decision over whether to proceed with a liquidation or a scheme of arrangement is taken with the interests of its policyholders in mind. In particular, Friends Provident is concerned to ensure that a scheme of arrangement will result in

a return to policyholders that is no less favourable than would be the case under a liquidation. While I note the considered comments of Gabriel Moss QC regarding technical legal matters relating to schemes of arrangement, I believe that it would be useful for all creditors if the Treasury or its advisers were to issue a simple, clear statement confirming that a scheme of arrangement will not operate to prejudice the interests of creditors, compared with a liquidation. An issue of particular note in this regard is the treatment of foreign currency deposits. Exhibit DCL2 to the fourth affidavit of David C Lovett states that "All non-sterling claims will be converted into sterling at the mid-market rate specified in the Financial Times (or such other source as the Liquidators Provisional deem appropriate) on 9th October 2008". We have, however, received legal advice to the effect that, if a winding-up were to proceed, the relevant date for converting foreign currency into sterling would be the date of the winding-up order. If the proponents of the scheme of arrangement insist that the effective exchange rate be that specified in the Financial Times on 9th October 2008, this would lead to a material disadvantage to foreign currency account holders as compared to a liquidation.

6. I am advised that the Treasury's advocate suggested at the hearing held on 29th January 2009 that the proposed scheme of arrangement would benefit small depositors. While applauding this initiative, I also understand that little was said regarding the potential benefits to larger creditors. A scheme of arrangement should not be established purely for the benefit of one particular class of creditors. I would also point out that, although a large corporate creditor, in many cases the amounts owed to Friends Provident are referable to individuals who would, had they made deposits with the Company directly, be classified as ordinary depositors.

I would also consider it appropriate if a specific objective was to be set to pay creditors amounts equal to 20 per cent of their claim after 3 months, 30 per cent (in aggregate) of their claim after 12 months, and 50 per cent (in aggregate) of their claim after 24 months. This would put a corporate depositor owed £100,000 by the Company in at least the same position as an individual owed £50,000.

7. I note, and share the frustrations of other creditors in relation to, the numerous delays that have occurred while the Treasury has created the framework for the proposed scheme. I believe, however, that the adversity caused by these delays could be alleviated if the Treasury were to:
 - (a) ensure that a distribution of approximately 12.5 per cent (less any amounts received pursuant to the Early Payment Scheme(s)) be made immediately; and
 - (b) guarantee that at least 35 per cent of amounts owed to depositors would be repaid.

As regards (a) above, I understand that the provisional liquidators have already realised approximately £140 million. Based on the draft balance sheet exhibited to the affidavit of Michael Simpson dated 21 January 2009, this represents approximately 15 per cent of total deposits. Given that these funds are available, and will be distributed in the event of either a scheme of arrangement being approved or the Company entering into liquidation, I believe that all depositors would benefit from an immediate distribution of 12.5

per cent of the amounts owed to them. This would also mean that the hardship caused by any additional time spent considering the terms of a scheme of arrangement would be mitigated.

As regards (b) above, a guarantee from the government to this effect could potentially enable depositors to obtain advances from commercial lenders against that guarantee, and would therefore lead to their being put in funds earlier than might otherwise be the case, without necessarily causing any additional cashflow burden to be assumed by the taxpayer.

8. I also note and support the government's efforts to assist depositors through the Early Payment Schemes. Friends Provident wishes to ensure that larger depositors are not adversely affected by the treatment of smaller depositors under the Early Payment Schemes. .
9. I would like to emphasise that the above suggestions are designed to be constructive but that they should not detract from efforts, by the provisional liquidators and others, to achieve a 100 per cent return for all the Company's depositors.

Take and sworn at ^{Port St Mary} ~~Castletown~~ :
This 17th day of February 2009 :
Before me:-

[Handwritten signature]

A Commissioner for Oaths
[Handwritten signature]

JUDITH ALEXANDRA MARGARET THORNLEY
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