

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 BRUCE GUNN

I, BRUCE GUNN, of 24 Vanessa Close, Celbridge, County Kildare, Ireland DO
SWEAR AND MAKE OATH AND SAY as follows:

1. I am an executive director and the appointed actuary of Prudential International Assurance plc ("Prudential"), an unsecured creditor of Kaupthing Singer & Friedlander (Isle of Man) Limited (the "Company"). I am duly authorised by Prudential to make this affidavit on its behalf.
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, given the circumstances of the Company, the potential offered by a scheme of arrangement is preferable to that of a liquidation of the Company, because of the flexibility of a scheme of arrangement and the potentially accelerated timetable for distributions. Nevertheless, Prudential has a number of requests and concerns regarding the proposed scheme of arrangement.
5. Prudential'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, Prudential 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.

6. I have been briefed regarding the hearing on 29th January 2009 where, I am advised, the Treasury's advocate suggested that the proposed scheme of arrangement would benefit small depositors. I understand that little was said regarding the potential benefits to larger creditors such as Prudential and other insurers. 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 Prudential are referable to individual policyholders who would, had they made deposits with the Company directly, be classified as ordinary or small depositors.
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 ultimately 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. I have been advised that, based on information contained in Exhibit "DCL 1" to the third Affidavit of David C. Lovett dated 26 January 2009; namely the illustrative scheme of arrangement, the then final average estimated recovery for creditors was 65% and that 71% of depositors were expected to be paid out in full. On that basis, it would seem to me that based on its assessment of the position, Treasury should be in a position to provide a guarantee that at

least 35 per cent of amounts owed to depositors would ultimately be repaid. I have also been advised that, at the Hearing on 29 January, Treasury representatives advised the Court that "an estimated 54 per cent of all depositors would be repaid in full within three months of such a scheme taking effect; 65 per cent would be repaid in full within 12 months, and 71 per cent of all depositors would be repaid in full within two years. The remaining 29 per cent would receive between 65 per cent and 100 per cent of their claims depending on assets recovered". I have been advised that the wording above in quotation marks appears on the Treasury's website.

8. I also note and support the government's efforts to assist depositors through the Early Payment Schemes. Prudential 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.


SWORN by the said BRUCE GUNN at

this 18 day of FEBRUARY 2009

at 25-28 North Wall Quay, IFSC, Dublin 1, Ireland

before me a ~~Commissioner for Oaths~~

Practising Solicitor and I know the Deponent



~~Commissioner for Oaths/Practising Solicitor~~

