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18 February 2009

For the Attention of Deputy Deemster Corlett
High Court of Justice of the Isle of Man
Chancery Division

**Re: Matter of the Kaupthing Singer & Friedlander (Isle of Man) Limited**

1. I address this letter to the Court in the capacity of an individual Depositor and claimant of Kaupthing Singer & Friedlander (Isle of Man) Limited (the "**Bank**"), with total account assets as of 8 October 2008 of 785,347.28 sterling and 182,468.58 U.S. Dollars. Hence, I believe I (together with my joint account holder) would be properly characterised as one of the 'large depositors' of the Bank.

I hope that the Court will accept this expression of my concerns about the issue pending before the Court, namely, whether or not to proceed directly to liquidation of the Bank.

***Loss of Liquidation Rights in Exchange for Unproven Benefits***

2. Having reviewed the description of the Scheme of Arrangement as set forth in the Third Affidavit of David C. Lovett (the "**Scheme**"), I am concerned to a very extreme degree that, if an order of liquidation is further delayed in favour of considering the Scheme, the benefits and protections accruing to large depositors under the established law and precedent for an orderly winding up would be inadvisably exchanged for claimed benefits and advantages of the Scheme, which are either unpersuasive and nebulous as presented, or, relate principally to the class of small depositors with claims of up to 50,000 sterling.

3. It has already been noted in the Judgment of 29 January that the statement in the Discussion draft (page 5), *viz.*, 'the Financial Objective is to provide faster and higher repayments to creditors' is inconsistent with Mr. Lovett's assertion in paragraph 24 of his Affidavit that '[i]t is anticipated that the Depositors can expect the same final recovery under either the liquidation/DCS or the proposed Scheme of Arrangement.' The fact that this has been admitted to be erroneous means that the only apparent concrete benefit of the Scheme is an advance of four to five months in the timing of payouts within the 50,000 limit. A four to five month advantage, if not eroded by intervening events and complications as is so common, is far from a persuasive justification for yielding the rights and protections otherwise afforded to claimants under existing law.

The Discussion document does not explain why or on the basis of what reliable source it asserts that the government-funded DCS payments would not be likely to begin prior to November 2009.

4. Four and one half months have passed since the suspension of activity by the Bank. This is already too much delay for claimants who have large stakes and wish to see positive action to realize assets in IOM and abroad before they are dissipated for any number of reasons.

5. Large depositors have a choice of numerous offshore jurisdictions in which to invest their funds. If they are unable to rely on the Isle of Man to guarantee an orderly and transparent liquidation, this must certainly become a significant obstacle to rehabilitation of the jurisdiction's reputation as a safe haven in the post-financial crisis world.

***Treatment of Creditors with Majority of Value***

6. Paragraph 18(e)(iii) of Mr. Lovett's Affidavit provides that "within 2 years of the Scheme of Arrangement taking effect, 71% of all Depositors (representing 49% by value of total creditor claims) would have been repaid in full and all claims which could otherwise have been made against the DCS will have been satisfied in full[.]"

7. It follows from this that payments owed to 51% by value of the total creditors are not anticipated to have been made in this period. Yet, no other statement is made at that point in the Affidavit regarding any improved outcome for creditors falling into this category. One cannot avoid concluding that the Scheme offers large depositors no concrete or demonstrative benefit above and beyond the 50,000 pound threshold for recovery from the DCS.

8. In paragraph 21, Mr Lovett asserts that "Depositors with claims against KSFIOM in excess of the amount they could otherwise claim under the DCS would receive prioritized and accelerated payments." Careful examination of the Discussion document appended to Mr. Lovett's Affidavit does not, however, reveal any substantiation of the manner in which these larger creditors would receive 'prioritized' payments. Again, the only concrete effect of the Scheme appears to be speeding up payouts which would in any event be made in the same amount under the DCS. No concrete effect for claims above that amount has been demonstrated.

9. The fact that the Scheme would place the large depositors on a par with the other creditors of the Bank is also worrisome (see page 6 of the Discussion document, right column). Does this not mean that small depositors have guaranteed payments first, but large depositors now must share the remaining assets with a different class of claimant? It is not clear how this can constitute a 'prioritization' rather than a demotion of large depositors' claims.

10. The Discussion document states in a conclusory manner on page 5 that the Scheme "prioritises 50-100 million of funds for the higher value creditors." How this is to be achieved is not explained.

***Duty of Scheme Administrator Undefined; Decrease in Powers of Investigation and Discovery***

11. If the Scheme is adopted, it is stated that the Liquidator Provisional would be dismissed and the Scheme Administrators would be empowered instead. The Discussion document provides no information as to whether such persons would be bound by the same high fiduciary duty to act in the best interests of the depositors and claimants. For example, the Discussion document provides that the Scheme would continue until the Scheme Administrators conclude that all 'realistic realization' has been achieved. By what standard or criteria will the Scheme Administrators make such a judgment? In comparison, it seems that a Liquidator would be bound by well-established common law standards for the performance of his duty with regard to

the interests of depositors. If the Scheme is to be considered for adoption, the depositors would be asked to enter uncharted waters without the full protection of the liquidation law and practice.

12. Page 13 of the Discussion draft concedes that under the Liquidation scenario, there is court jurisdiction which can lead to action in foreign courts, and further, that the Liquidator has powers of investigation and recovery not available under a Scheme of Arrangement. In view of this, the higher value depositors must be concerned that under the Scheme the Administrators would either not have full incentives to, or not have sufficiently recognized powers enabling them to, aggressively collect foreign assets of the Bank. If such powers do not exist legislatively for a private contractual Scheme of Arrangement, then such a Scheme may become extremely deleterious for the higher value depositors whose recovery depends on foreign assets -- notably the assets of the Bank held at Kaupthing Singer & Friedlander Limited in the U.K. -- being repatriated.

13. It is therefore impossible not to question the credibility of the stated outcome on page 13: 'base case financial outcome for the creditors will be the same as would be the case by realizations in a liquidation and payments via the DCS.' Large depositors have reason to fear that the tools needed to gather in foreign assets will be lacking and that in fact their financial outcome will be worse under the Scheme.

***Imposition of Additional Procedural Burdens on Depositors***

14. Should the parties proposing the Scheme be granted the ability to present it to the Depositors, this will impose yet more financial and administrative burdens on Depositors who are already reeling from the failure of the Bank. In order to have an informed basis for the choice they would be asked to make, the Depositors would normally need to allocate resources to obtaining legal counsel to understand the value of the rights they would be waiving by exiting the well known vehicle of liquidation and exchanging it for an undefined and unprecedented scheme. Most Depositors will not be able to arrange this either from lack of sophistication, resources, or time. As a result, many Depositors will be unable to make an informed decision.

15. The additional hidden costs and losses potentially associated with the Scheme scarcely appear to be justified when one considers how vague and unsubstantiated the claimed benefits of the Scheme appear to be.

***Two Claims Procedure***

16. The Affidavit of Mr. Lovett and the attached Discussion draft argue that there is a problem insofar as if no Scheme is adopted, there would be a duplicative and wasteful two claims management procedure. From the perspective of a large depositor, the existence of this procedural and administrative imperfection is completely inadequate justification for adopting the Scheme, in view of what the large depositors lose: legal certainty, established protections, maximization of realization efforts in IOM and abroad. Surely there must be other ways to address this imperfection.

***Conclusion***

17. In view of these very real concerns, I hope that the High Court will take steps to protect the position of the large individual depositors to the full extent of existing law, ensuring the availability of an orderly and transparent liquidation, rather than pursuant to an undefined Scheme of Arrangement.

It is my good faith belief that there is a significant but silent constituency of large depositors, who, if the facts were fully known to them, or if resources were sufficient to present their case in the Isle of Man, would in fact be pressing vociferously for a winding up order.

Thank you.

Sincerely yours

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