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TO ALL KNOWN CREDITORS

11 February 2013

Ref: MLP7E/ARB/DE/PH/LO3465/PF16.1

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Dear Sirs

Heritable Bank Plc (In Administration) (“the Company”)

Court of Session number: P1684/08

Registered office address: Ernst & Young LLP, George House, Glasgow, G2 1RR

Registered company number: SC000717

I write, in accordance with Rule 2.38 of the Insolvency (Scotland) Rules 1986 (the “Rules”), to provide creditors with a report on the progress of the Administration. This report covers the period from 1 July 2012 to 31 December 2012 and should be read in conjunction with the Administrators’ proposals dated 20 November 2008 (the “Proposals”) and the Administrators’ previous progress reports dated 17 April 2009, 13 August 2009, 14 January 2010, 30 April 2010, 11 August 2010, 10 November 2010 (the “November 2010 Report”), 10 February 2011 (the “February 2011 Report”), 11 May 2011 (the “May 2011 Report”), 10 August 2011 (the “August 2011 Report”), 4 November 2011 (the “November 2011 Report”), 10 February 2012 (the “February 2012 Report”), 2 May 2012 (the “May 2012 report”) and 27 July 2012 (the “July 2012 report”).

The Company, registered number SC000717, entered Administration on 7 October 2008 and AR Bloom, PJ Brazzill, TM Burton and ME Mills were appointed to act as Joint Administrators (the “Administrators”). The appointment was made by the Court of Session in Scotland under the provisions of paragraph 13 of Schedule B1 to the Insolvency Act 1986 (the “Act”). Under the terms of the appointment, any act required or authorised to be done by the Administrators can be done by any of them.

On 10 October 2012, the Court of Session in Scotland approved the extension of the Administration for a further year, to 7 October 2013, in accordance with paragraph 76 of Schedule B1 to the Insolvency Act 1986.

Summary of progress since the July 2012 Report

1. Deposits

1.1 Trust claims

As previously reported, the trust settlement was concluded on 22 March 2012 and the necessary payments required under the Settlement Deed were made by the Administrators.

2. Books of business

2.1 Structured Property Finance (“SPF”)

At the time of the Administrators’ appointment, the SPF loan book comprised 252 loans with a book value of £372.4 million (£317.2 million net of impairments). The net book value of the loan book as at the date of Administration was revised to £330.1 million, which reflects the Administrators’ recovery expectations. Also included within the SPF loan book at the date of Administration were 99 short term funding loans (“STLB”) with a net book value of £26.9 million. The net book value of the STLB was subsequently revised to £41.1 million following a transfer of more complex STLB accounts from the residential mortgage loan book to SPF, a write back of £4.6 million of impairments and also additional litigation receipts of £8.0 million.

As previously reported, in January 2012 the Administrators received an offer from the management of the SPF book to acquire the majority of the SPF and STLB loan books and this offer was subsequently accepted. The sale of the remainder of the SPF and STLB loan books, with the exception of four loans, was completed on 13 April 2012 and generated net receipts of £12.2 million.

Net cash receipts totalled £371.0 million as at 31 December 2012. This comprised of 296 loan redemptions and other capital receipts of £511.0 million and interest and fees of £16.0 million (less work in progress draw-downs of £111.8 million and less payments to Landsbanki Guernsey Limited (in Administration) of £44.2 million).

The number of loans outstanding has decreased from 351 to one remaining loan, and a sum of £0.8 million has been set aside to fund work in progress payments for the Swaylands development project as at 31 December 2012.

2.2 Landsbanki Guernsey Limited (In Administration) (“LBG”)

As described in previous reports, we have worked collaboratively with the Administrators of LBG to assist them in the recovery of a number of loans transferred in whole or in part to LBG.

Following the completion of the sale of the SPF loan book, only one borrower group remained that required a combined approach. A settlement agreement to release the Company’s security relating to the remaining site upon receipt of £1.9 million was achieved and completed in November 2012. This has resulted in recovery of £0.1 million for the Company (with the balance of the funds £1.7 million paid to LBG). This was the only remaining anticipated net receipt for SPF.

2.3 Residential Mortgages (“RM”)

As previously reported, the RM loan book is in run-off until market conditions improve and/or the Administrators consider that creditors’ interests would be best served by a sale of the book.

The gross value of the RM loan book on appointment was £690.0 million (including £64.7 million in relation to the STLB). This has reduced to £236.8 million (net of impairments) as at 31 December 2012. Creditors should be aware that £58.5 million of the overall £453.2

million reduction has been a direct result of certain short term and other complex loans (including the STLB) being transferred from the RM division to the SPF division.

Gross receipts to 31 December 2012, including interest collections and capital repayments, total £437.8 million. Draw-downs of £2.7 million (in relation to short term development loans held in the RM loan book before the loans were transferred to SPF) have been made since the Administrators' appointment.

As previously reported, the Administrators have entered into an agreement with Oakwood Global Finance LLP in relation to the outsourcing of the administration of the RM loan book. The outsourcing arrangements commenced on 27 August 2009 and continue to operate satisfactorily.

3. Subsidiary companies

3.1 Heritable Capital Partners Limited (In Administration) ("HCP")

As previously reported, the Company is the largest creditor of HCP, being the beneficiary of an intercompany loan of £20.0 million in relation to the Swaylands development project ("Swaylands").

As at 31 December 2012, HCP had one loan outstanding to Neptune (Ealing Road) LLP ("Neptune"). As its only asset was sold in May 2012, and there is no other prospect of recovery, the remaining outstanding loan is to be written down and the Neptune entity to be wound up.

In relation to Swaylands, as previously reported, the sale of all units within the development has been completed and receipts have been sufficient to allow HCP to repay the capital balance of its loan (in relation to this project) to the Company in full. HCP remains liable to carry out remedial works to the development including the re-roofing of Swaylands House. These and other final completion works are ongoing but are expected to be completed by shortly.

3.2 Heritable Asset Finance Limited (In Administration) ("HAF")

Following a sale of the remaining loan book to Aldermore Bank Plc on 2 March 2010 for a consideration of £23.0 million, which represented a return on the remaining book of 83.0 pence in the pound, HAF was subsequently dissolved on 13 September 2011.

HAF made an overall return to creditors of 95.4 pence in the pound, of which the Company received a total of £71.5 million.

3.3 Key Business Finance Limited and Key Business Finance Corporation Plc (formerly in Administration) ("KBFL" and "KBFC" respectively)

Following a sale of the KBFL and KBFC loans, the Administrators concluded that KBFL and KBFC had no remaining property which might permit any further distributions to creditors. Accordingly, both companies were dissolved on 12 April 2010.

4. Customer collections

As previously reported, the terms of an agreement reached with HSBC Bank Plc (“HSBC”) provided for funds of £2.0 million to be retained by HSBC as collateral against claims brought against it as a result of its previous and ongoing sponsorship of the Company.

To date, direct debit indemnity claims totalling £69,729 have been settled as an expense of the Administration.

Once the Administrators are in a position to cease trading and bring the Administration to a close, they will need to negotiate a mechanism to deal with any residual indemnity claims by HSBC. Any excess cash collateral held by HSBC will then be released to the Company.

5. Employees

Following the closure of the trading office at 8 Hill Street, London on 23 June 2012, the final member of staff was made redundant. There are now no remaining members of staff employed by the Company.

6. Statutory matters

The Administrators have complied with their statutory duties under the Act in respect of the Administration.

7. Receipts and payments account

I enclose an abstract of receipts and payments account for the period 7 October 2008 to 31 December 2012. This does not reflect estimated future realisations or costs.

To date, receipts total £1,123.4 million. Cash at bank as at 31 December 2012 was £33.3 million after total payments of £1,090.1 million.

For the period 1 July 2012 to 31 December 2012, receipts totalled £34.0 million and payments totalled £35.8 million (substantially comprising payments made to creditors in respect of the twelfth interim dividend).

Please note that a thirteenth interim dividend of c. 2.7 pence in the pound, totalling £30.3 million, was paid on 15 January 2013 as reported below. As such, the cash balance detailed above has since been reduced by this sum.

8. Administrators’ remuneration and disbursements

The Administrators’ remuneration was fixed on a time-cost basis by a resolution of the creditors’ committee passed on 22 December 2008. The Administrators have incurred time costs of £25.6 million (including VAT) against which the sum of £24.3 million (including VAT) has been drawn. An analysis of the time spent is included at Appendix 2 of this report. Appendix 3 includes a statement of the Administrators’ policy in relation to charging time and disbursements.

All remuneration drawn to date has been reviewed and approved by the Company's creditors' committee.

To date, the sum of £56,590 (including VAT) has been drawn in respect of disbursements, as recorded in the abstract of receipts and payments at Appendix 1.

9. Creditors

9.1 Secured creditors

The Company has no secured creditors.

9.2 Preferential creditors

As previously reported, we have adjudicated upon preferential claims and a first and final dividend of 100 pence in the pound was paid to all preferential creditors on 28 July 2009. The amount of this distribution was £34,843.21.

9.3 Non-preferential creditors

Total non-preferential claims received (excluding those received from Landsbanki Islands h.f. ("LIHF")) amount to c. £1,003.0 million. These claims were adjudicated upon and admitted in the following amounts:

Retail Deposits – Financial Services Compensation Scheme ("FSCS")	£547,062,084
In House and Pending Accounts – FSCS	£8,150,595
In House and Pending Accounts – not paid by FSCS	£641,097
Landsbanki Guernsey	£34,347,647
Wholesale Deposits – not paid by FSCS	£414,943,788
Wholesale Deposits – FSCS	£490,324
Trade Creditors	£1,400,117
Employees	£1,678,502
RPO	£128,931
Settlement of Trust	(£6,977,773)
	<u>£1,002,996,415</u>

Claims of c. £0.2 million have been formally rejected.

The claims submitted by LIHF and the Administrators' treatment of these claims is discussed in section 9.4.1 below.

9.3.1 Retail deposits

The position remains as previously reported.

9.3.2 Other creditors

The Administrators have received claims of £1.5 million from other unsecured non-preferential creditors. These comprise amounts due to wholesale brokers and trade suppliers. We have admitted claims totalling £1.3 million for the purposes of the thirteenth interim dividend (claims of £1.3 million were admitted for the twelfth dividend) and rejected claims totalling £0.2 million.

9.3.5 Employees

The non-preferential element of employees' claims admitted for the purposes of the thirteenth interim dividend totalled £1.7 million.

The Redundancy Payment Office ("RPO") claim relating to payments made to employees in respect of the non-preferential elements of their claims was admitted for £0.1 million.

9.4 Intercompany claims

9.4.1 Intercompany liabilities

We refer to the summary of developments and the Administrators' position as set out in their previous reports.

The Supreme Court appeal hearing in respect of the preliminary issue is to be held on 4 and 5 February 2013. The preliminary issue the Supreme Court is being asked to determine is as follows: for the purpose of the Company's administrators adjudicating on Landsbanki's proof of debt in the Company's administration, in accordance with which law (i.e. Scots law or Icelandic law) should the existence and quantum of Landsbanki's liabilities to the Company be determined?

As previously reported and in brief summary, the Company's case is that since the question of the existence and quantum of Landsbanki's liabilities to the Company arises as an issue in the administration of the Company, Scots law applies. Landsbanki's case is that under the relevant legislation, Icelandic law applies to the question of determining Landsbanki's liabilities.

Landsbanki filed and served its case on 21 December 2012. The Company filed and served its case on 14 January 2013.

Following the hearing, it is likely to be three to four months until judgment is handed down, although it may be longer.

The Administrators shall report further on developments in their next report.

9.4.2 Intercompany receivables

As previously reported, intercompany receivables (other than the amounts claimed by the Company from LIHF) are made up of the following amounts owed by its subsidiaries:

Key Business Finance Corporation Plc	£48,976,122
Heritable Asset Finance Limited (in Administration)	£75,147,222
Heritable Capital Partners Limited (in Administration)	<u>£19,989,588</u>
	<u>£144,112,932</u>

As previously reported, the Company's claim in the Administration of HAF had increased by £0.1 million. This was due to an assignment by KBFC to the Company of a claim KBFC had against HAF, arising from certain payments made to HMRC by KBFC in respect of group VAT liabilities incurred by HAF.

Claims had been submitted by the Company in the Administration of the respective subsidiaries as a creditor for the above amounts.

As stated previously, KBFC had paid the Company total dividends of £46.1 million and had moved to dissolution.

HAF had paid the Company total dividends of £71.6 million. The Administrators of HAF filed for dissolution on 13 September 2011 and HAF has now been dissolved.

The Administrators of HCP are not in a position to make any distribution at the present time.

10. Distributions to creditors

The Company declared and paid a first and final dividend of 100 pence in the pound to preferential creditors in July 2009.

The Company has declared and paid the following interim dividends to the Company's unsecured non-preferential creditors:

- (i) a first interim dividend of c. 16.1 pence in the pound in an amount of c. £162.7 million on 28 July 2009;
- (ii) a second interim dividend of c. 12.7 pence in the pound in an amount of c. £127.7 million on 16 December 2009;
- (iii) a third interim dividend of c. 6.2 pence in the pound in an amount of c. £62.5 million on 26 March 2010;

- (iv) a fourth interim dividend of c. 6.3 pence in the pound in an amount of c. £63.3 million on 15 July 2010;
- (v) a fifth interim dividend of c. 4.1 pence in the pound in an amount of c. £41.8 million on 14 October 2010;
- (vi) a sixth interim dividend of c. 4.7 pence in the pound in an amount of c. £47.6 million on 14 January 2011;
- (vii) a seventh interim dividend of c. 6.2 pence in the pound in an amount of c. £63.1 million on 15 April 2011;
- (viii) an eighth interim dividend of c. 4.1 pence in the pound in an amount of c. £41.0 million on 13 July 2011;
- (ix) a ninth interim dividend of c. 4.2 pence in the pound in an amount of £42.2 million on 18 October 2011;
- (x) a tenth interim dividend of c. 3.3 pence in the pound in an amount of £33.5 million on 18 January 2012;
- (xi) an eleventh interim dividend of c. 3.8 pence in the pound in an amount of £38.0 million on 18 April 2012;
- xii) a twelfth interim dividend of c. 2.9 pence in the pound in an amount of £31.8 million on 19 July 2012; and
- xiii) a thirteenth interim dividend of c. 2.7 pence in the pound in an amount of £30.3 million on 15 January 2013.

The Administrators intend to declare a fourteenth interim dividend in July 2013. The quantum of this dividend remains subject to the continued collection of funds through a run-off of the various loan books. The thirteenth dividend has been made in accordance with the scheme of division included in Appendix 4 to this report.

I will report to you again within six weeks of the end of the next accounting period.

Yours faithfully
for Heritable Bank Plc (In Administration)

A handwritten signature in black ink, appearing to be 'AR Bloom', written in a cursive style.

AR Bloom
Joint Administrator

Enc: Joint Administrators' Abstract of Receipts and Payments Account
Summary of Joint Administrators' Time-Costs and Category 2 Disbursements
Joint Administrators' Policy on Fees and Disbursements
Scheme of division in respect of the thirteenth interim dividend
Form 2.20B (Scot)

The Insolvency Practitioners Association in the UK authorises Patrick Joseph Brazzill to act as an Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986 and the Institute of Chartered Accountants of Scotland in the UK authorises Thomas Merchant Burton to act as an Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986. The Institute of Chartered Accountants in England and Wales in the UK authorises Alan Robert Bloom and Margaret Elizabeth Mills to act as Insolvency Practitioners under section 390(2)(a) of the Insolvency Act 1986.

The affairs, business and property of the Company are being managed by the Joint Administrators who act as agents of the Company only and without personal liability.

Appendix 1

Heritable Bank Plc (In Administration) - Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 31 December 2012

	Balance as at 30 June 2012 £	Movement from 1 July 2012 to 31 December 2012 £	Balance as at 31 December 2012 £
Receipts			
SPF Interest	12,944,289	4,535	12,948,824
Mortgage Receipts	93,321,186	9,347,873	102,669,059
Sundry	23,322	647	23,969
Mortgage Redemptions	311,158,514	24,690,498	335,849,012
Funds from Aldermore Bank	158,062	-	158,062
SPF Loan Book Sale	6,313,208	-	6,313,208
SPF Plot Sale	491,242,642	-	491,242,642
SPF Capital Reduction	11,994,035	-	11,994,035
Post Appointment VAT refund	1,253,452	31,012	1,284,464
Receipts from ING	936,752	(826)	935,926
Refund of Cash Ratio from BOE	597,406	-	597,406
Financing	113,995	-	113,995
Bank Interest	774,510	40,559	815,070
Dividends From Subsidiaries	119,264,899	(121,449)	119,143,450
Intercompany Recharges	5,523,462	-	5,523,462
Cash at Bank	49,689	-	49,689
Bawag Loan	20,000,000	-	20,000,000
Dividends Received From Related Parties	7,550	-	7,550
Settlement from Trust Account	6,977,774	-	6,977,774
Transfer from Direct Debit indemnity	92,187	-	92,187
Transfer from Euro account	4,507,365	-	4,507,365
Transfer from Claims Reserve	2,172,970	-	2,172,970
	1,089,427,269	33,992,849	1,123,420,118
Payments			
Direct Labour	12,067	-	12,067
Pension	1,000,545	-	1,000,545
Net Wages	7,421,919	36,000	7,457,919
Employees NIC Reimbursement / NIC	21,643	9,833	31,476
Employee Life Insurance	11,795	-	11,795
RML Other	70,744	-	70,744
Professional Fees	255,216	1,020	256,236
Scottish Lodgement Fee	15	-	15
Refund of overpayment	144,482	-	144,482
Business Rates	1,956,777	38,017	1,994,794
Repayment of post-appointment receipts	52,859	-	52,859
Employee Expenses	32,275	1,915	34,190
Sundry Expenses	456,469	29,074	485,544
Bank Charges and Interest	57,611	3,005	60,617
Administrators Fees	23,189,692	1,136,880	24,326,572
Administrators Disbursements	54,355	2,234	56,590
Legal Disbursements	72,298	49,339	121,636
Legal Fees	10,615,637	384,683	11,000,319
Loans to Subs	620	5,690	6,310
SPF - Legal	1,591,571	106,776	1,698,347
Purchase Orders/Trade Suppliers	8,712,064	1,112,359	9,824,423
SPF Drawdown	98,408,930	16,946	98,425,877
RML Drawdown	2,699,594	-	2,699,594
HCP Drawdown	657,167	468	657,635
Ransom Payments - Trade / Legal	273,080	-	273,080
RML - Legal	256,321	-	256,321
Bawag Loan Interest	22,657,706	-	22,657,706
Bawag Loan fee	1,000,000	-	1,000,000
Transfer to claims reserve account	70,511,441	1,844,190	72,355,631
Payments on behalf of HCP	11,668,353	447,402	12,115,755
Direct Debit Indemnity Claims	69,729	-	69,729
Insurance	452,857	16,767	469,624
PAYE	5,130,664	28,690	5,159,354
Transfer to HSBC DD Cash Collateral A/c	146,412	1,812	148,224
Newcastle building society	670,025	-	670,025
Payments to Landsbanki Guemsey	44,012,019	2,911	44,014,930
VAT Payment	1,844,170	-	1,844,170
Distribution to preferential creditors	36,564	-	36,564
First distribution to unsecured creditors	163,195,292	-	163,195,292
Second distribution to unsecured creditors	127,732,167	-	127,732,167
Third distribution to unsecured creditors	62,482,199	-	62,482,199
Fourth distribution to unsecured creditors	63,317,833	-	63,317,833
Catch up payments for previous dividends	312,513	40,776	353,289
Fifth distribution to unsecured creditors	41,752,900	-	41,752,900
Sixth distribution to unsecured creditors	47,610,416	-	47,610,416
Seventh distribution to unsecured creditors	63,111,769	-	63,111,769
Eighth distribution to unsecured creditors	45,566,040	(118)	45,565,923
Ninth distribution to unsecured creditors	42,203,781	(279)	42,203,502
Tenth distribution to unsecured creditors	36,752,651	(575)	36,752,076
Eleventh distribution to unsecured creditors	37,370,617	189,657	37,560,274
Twelfth distribution to unsecured creditors	-	28,679,470	28,679,470
Oakwood Management Fee	6,260,358	1,570,263	7,830,620
Assignment of VAT Liability	128,165	-	128,165
Petty Cash	14,000	-	14,000
Property Surrender Payment	228,000	-	228,000
HMRC tax/nic deductions re emp dividend	82,051	9,530	91,580
	1,054,346,439	35,764,734	1,090,111,173
	35,080,830	(1,771,885)	33,308,945
Represented By:			
Royal Bank of Scotland	6,395,680	580,271	6,975,950
Santander	4,144,737	2,661,572	6,806,309
HBOS	4,396,110	2,413,013	6,809,123
HSBC Current Account	8,175,555	(2,531,269)	5,644,286
HSBC - SPF account	11,968,748	(11,710,083)	258,664
Co-op	-	6,814,613	6,814,613
DD Cash Collateral Account	-	-	-
Euro current account	-	-	-
	35,080,830	(1,771,884)	33,308,945

Appendix 2

Heritable Bank Plc (In Administration)

Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 31 December 2012

Classification of work function	Partner	Executive Director	Senior Manager	Manager	Senior	Staff	Total Hours	Average Hourly Rate (£)	Time costs for period (£)
Accounting, Administration, Bank & Statutory Reporting, Statutory Duties and Immediate Tasks	284.60	18.90	959.00	1,177.40	4,007.50	8,144.90	14,592.30	263.44	£3,844,225.50
Creditors and Debtors	254.50	25.60	307.60	1,374.20	3,042.40	2,250.70	7,255.00	250.21	£1,815,276.98
Employee Matters	42.70	-	166.20	83.50	654.00	39.80	986.20	325.63	£321,141.04
FSA/BoE Reporting	7.50	1.00	110.80	90.50	189.00	-	398.80	369.82	147,485.05
Investigations	2.00	0.50	14.00	3.50	17.00	38.00	75.00	125.43	9,407.50
Legal Issues	93.00	3.00	16.00	5.00	54.50	69.30	240.80	389.05	£93,683.98
Other Assets and KBFC	10.00	0.50	6.70	75.60	20.80	16.00	129.60	418.83	54,280.82
Public Relations	6.10	4.00	6.00	3.00	-	-	19.10	450.79	8,610.00
Residential Mortgage	488.40	374.40	1,373.80	1,698.80	1,642.10	412.40	5,989.90	432.77	£2,592,227.23
Outsourcing of Residential Mortgage Book	11.00	130.80	764.00	57.00	85.00	-	1,047.80	518.38	543,157.50
Retail Book	45.80	1.50	182.50	668.50	516.00	219.30	1,633.60	329.25	£537,861.56
Retention of Title	1.50	-	1.10	-	5.50	-	8.10	356.36	2,886.50
Sale Process	90.80	123.00	139.50	277.00	867.00	55.00	1,552.30	412.17	£639,808.02
Structured Property Finance	663.80	865.80	5,194.70	3,707.80	8,199.10	1,489.00	20,120.20	424.30	£8,536,952.47
Steps pre-appointment	12.00	4.00	15.00	-	-	-	31.00	567.42	17,590.00
Trading	4.00	-	391.80	1,611.20	1,264.20	604.20	3,875.40	311.31	£1,206,450.41
VAT & Taxation	108.30	246.10	532.10	582.20	914.00	310.70	2,693.40	520.52	£1,401,961.81
Wholesale Depositors	-	-	-	-	25.60	40.00	65.60	103.41	£6,784.00
Grand Total	2,126.00	1,799.10	10,180.80	11,415.20	21,503.70	13,689.30	60,714.10	358.73	£21,779,790.36

Please note that this includes fees and other charges reclaimed in relation to services performed for ING under the Transfer orders, as referred to in the Administrators' Statement of Proposals

Charge out rates for the Administration team

Grade	Standard Rates for Restructuring 2012/2013	Standard Rates for M&A 2012/2013
Partner	765	836
Director	694	732
Assistant Director	536	602
Senior Executive	393	448
Executive	289	361
Assistant Executive	224	-
Client Service Associate	213	-
Analyst	185	-
Business Trainee	158	-

The above rates represent a 3% uplift as approved by the Creditors' Committee effective from 1 July 2012.

Appendix 3

Heritable Bank Plc (In Administration)

Office Holders' Charging Policy for Fees

The Company's creditors have determined that the Administrators' remuneration should be fixed on the basis of time properly spent by the Administrators and their staff in attending to matters arising in the Company's Administration.

The Administrators have engaged a manager and other staff to work on the cases. 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. Additional assistance is provided by Accounting and Treasury Executives dealing with the Company's bank accounts and statutory compliance issues. 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 separate time code established for each case. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rate for each category of staff over the period is shown in Appendix 2, as are the current hourly rates used. The current hourly rates may be higher than the average rates, if hourly rates have increased over the period covered by this report.

Office Holders' Charging Policy for Disbursements

Statement of Insolvency Practice No. 9 (Scotland) ("SIP 9") published by R3 (The Association of Business Recovery Professionals) divides disbursements into two categories.

Category 1 disbursements comprise payments made by the office holders' firm, which comprise specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. These disbursements can be paid from the insolvent's assets without approval from the Committee. In line with SIP 9, it is our policy to disclose such disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as the Committee require to support the disbursements drawn.

Category 2 disbursements comprise payments made by the office holders' firm which include elements of shared or overhead costs. Such disbursements are subject to approval from the Company's creditors as if they were remuneration. It is our policy, in line with SIP 9, to seek approval for this category of disbursement before they are drawn.

We do not propose to draw any Category 2 disbursements.

Appendix 4

Heritable Bank Plc (In Administration) (“the Company”)

Administrators’ Proposed Scheme of Division for the Thirteenth Interim Dividend as at 31 December 2012

	£	£
Balance of Receipts and Payments account		33,308,945.49
Balance of Reserve account		84,604,504.12
<u>Provisions for Estimated Payments</u>		
Administrators’ fees (unbilled)	1,087,142.87	
Administrators’ fees (forecast for 3 months)	254,913.00	
Legal costs (unbilled and forecast for 3 months)	715,000.00	
Trading costs (forecast for 3 months)	864,271.53	
SPF drawdowns	0	
Catch up dividend payments	42,791.17	
		<hr/>
		(2,964,118.57)
Provision for potential payments in respect of first, second, third, fourth, fifth, sixth, seventh, eighth, ninth, tenth, eleventh, twelfth and thirteenth interim dividends		(84,604,504.12)
Balance available for thirteenth interim dividend to unsecured creditors		30,344,826.92
Provision for potential payments in respect of thirteenth interim dividend ¹		(3,080,571.71)
		<hr/>
Dividend payable for thirteenth dividend to unsecured creditors		27,264,255.21

The estimated sum of £30,344,826.92 represents a dividend of c. 2.72 pence in the pound to unsecured creditors whose claims total £1,002,996,415.05.

¹ Breakdown set out below

Provision for potential payments in respect of thirteenth interim dividend:

	Note	£	£
Trade Creditors	1		220,358.06
<u>Claims submitted by Landsbanki (each as defined below):</u>			
RCF Claim	2	85,985,378.60	
MPA Claim	3	17,122,221.92	
Guarantee Claim	4	0.00	
Subordinated Debt Claim	5	0.00	
			<hr/>
			103,327,958.58
General Provision	6		10,000,000.00
			<hr/>
Total Provisions			113,327,958.58
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Dividend of 2.72p/£			3,080,571.71

Notes:

1. This relates to the claims of creditors included in the Statement of Affairs who have not yet submitted a claim in the Administration.
2. This relates to a claim made by Landsbanki for the balance drawn by the Company under the £400 million revolving credit facility between the parties dated 31 May 2002 (as amended) (the "**RCF Claim**"). The RCF Claim has been rejected by the Administrators in full. Landsbanki has appealed the rejection of the RCF Claim and under applicable Scottish legislation, the Company is required to make a provision for the dividend payable in respect of the full amount of the RCF Claim pending resolution of the appeal.
3. This relates to a claim made by Landsbanki under the Master Participation Agreement between the parties dated 29 May 2001 (the "**MPA Claim**"). The MPA Claim has been rejected by the Administrators in full. Landsbanki has appealed the rejection of the MPA Claim and, under applicable Scottish legislation, the Company is required to make a provision for the dividend payable in respect of the full amount of the MPA Claim pending resolution of the appeal.
4. This relates to a claim made by Landsbanki in respect of the guarantee dated 19 January 2004 pursuant to which Landsbanki agreed to guarantee all amounts owing by the Company to its other creditors (the "**Guarantee Claim**"). The Administrators have treated the Guarantee Claim as a contingent claim and attributed to it a value of zero. Although Landsbanki has appealed the valuation, it has confirmed that the Administrators do not presently need to make a provision in respect of this claim.
5. This relates to a claim made by Landsbanki for amounts borrowed by the Company under a £50 million subordinated loan agreement between the parties dated 13 August 2001 (the "**Subordinated Debt Claim**"). The Administrators have treated the Subordinated Debt Claim as a contingent claim and attributed to it a value of zero. Although Landsbanki has appealed the valuation, it has confirmed that the Administrators do not presently need to make a provision in respect of this claim.
6. The Administrators have made a general provision of £10 million for any unknown potential claims.

Administrators' progress report**Pursuant to Rule 2.38 of the Insolvency (Scotland) Rules 1986**

Name of Company Heritable Bank Plc (In Administration)	Company number SC000717
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(a) Insert full name(s) I / We (a) Alan Robert Bloom, Patrick Joseph Brazzill, Margaret Elizabeth Mills and Thomas Merchant Burton
and address(es) of
administrator(s) of Ernst & Young LLP, 1 More London Place, London SE1 2AF

administrator(s) of the above company attach a progress report for the period

	from	to
(b) Insert date	(b) <u>1 July 2012</u>	(b) <u>31 December 2012</u>

Signed



Joint Administrator

Dated

11 February 2013

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record

Pooja Hindocha	
Ernst & Young LLP, 1 More London Place, London SE1 2AF	
	Tel: 0207 951 7700
DX Number:	DX Exchange:

Companies House receipt date
barcode

When you have completed and signed this form please send it to the Registrar of Companies at:

Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB
DX 235 Edinburgh / LP 4 Edinburgh-2