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TO ALL KNOWN CREDITORS

17 February 2020

Ref: ML5W/ARB/DE/SL/OD/LO3465

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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 3.93 of the Insolvency (Scotland) (Company Voluntary Arrangements and Administration) Rules 2018 (the "Rules"), to provide creditors with a report on the progress of the Administration. This report covers the period from 14 August 2019 to 13 February 2020 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"), 27 July 2012 (the "July 2012 Report"), 11 February 2013 (the "February 2013 Report"), 9 September 2013 (the "September 2013 Report"), 25 March 2014 (the "March 2014 Report"), 29 August 2014 (the "August 2014 Report"), 16 March 2015 ("the March 2015 Report"), 6 September 2015 ("the September 2015 Report"), 10 March 2016 ("the March 2016 Report"), 16 September 2016 ("the September 2016 Report"), 20 March 2017 ("the March 2017 Report"), 30 August 2017 ("the August 2017 Report"), 19 March 2018 ("the March 2018 Report"), 31 August 2018 ("the August 2018 Report"), 22 March 2019 ("the March 2019 Report") and 10 September 2019 ("the September 2019 Report").

The Company 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 11 September 2013, TM Burton was replaced as a Joint Administrator of the Company by Colin Peter Dempster of Ernst & Young LLP, 10 George Street, Edinburgh, EH2 2DZ by a Court Order.

Summary of progress since the September 2019 Report

1. Subsidiary Companies

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

Swaylands, Penshurst, Kent

At the date of Administration, HCP had a total exposure of £25.4 million to its original six project partners.

Please see the previous reports for the background to the Swaylands exposure in respect of both Swaylands House and Drummond Hall.

To come to an early resolution of the claims, in May 2018, the Joint Administrators made a without prejudice offer of settlement to SEML and the leaseholders concerned, which was not accepted. In October 2018 they made a further offer of settlement, which was also not accepted. On 12 March 2019, the Joint Administrators received a counter offer from SEML. Shortly after providing SEML's counter offer, SEML's solicitors informed the Joint Administrators that they had issued proceedings in order to preserve their client's claim for limitation purposes but that they did not intend to serve a claim form at that stage.

In June 2019, the Joint Administrators held a without prejudice meeting with SEML and the residents of Swaylands House. Shortly afterwards, the Joint Administrators advanced a further without prejudice offer. I can confirm that this offer was accepted and the payments to individual Swaylands residents and SEML were made in September 2019. This full and final payment settled all claims in respect of Swaylands. The Joint Administrators will now make the necessary steps to close the Administration.

2. Closure

The Joint Administrators consider that the administration of the Company is now ready to be concluded. Since the September 2019 report, the Joint Administrators have been planning the closure of the administration to dissolution, the timetable for this in line with relevant legislation and considering the mechanics to enable a final distribution to be made to creditors. The Joint Administrators intend to be making a final distribution in the coming months. As such, please ensure that you advise the Joint Administrators of the bank details you would like the final distribution to be made into, by completing and returning the schedule appended to the letter enclosed with this progress report.

3. Employees

There are no remaining members of staff employed by the Company.

4. Statutory matters

The Administrators have complied with their statutory duties under the Act.

5. Receipts and payments account

I enclose an abstract of receipts and payments account for the period 7 October 2008 to 13 February 2020. This does not reflect estimated future realisations or costs.

To date, receipts total £1,371.7 million. Net funds held by the Joint Administrators as at 13 February 2020 were £11.2 million, after deducting total payments of £1,360.5 million. For the period 14 August 2019 to 13 February 2020, the balance of receipts and payments totalled -£6.7 million.

6. Administrators' remuneration and disbursements

The Joint Administrators' remuneration was fixed on a time-cost basis by a resolution of the creditors' committee passed on 22 December 2008. The Joint Administrators have drawn the sum of £31.2 million (including VAT). No remuneration has been drawn during the period. An analysis of the time spent is included at Appendix 2 of this report. Appendix 3 includes a statement of the Joint 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 £106,698 (including VAT) has been drawn in respect of disbursements, as recorded in the abstract of receipts and payments at Appendix 1.

7. Creditors

7.1 Secured creditors

The Company has no secured creditors.

7.2 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.

7.3 Non-preferential creditors

Total non-preferential claims received amount to c.£1,073.0 million. These claims were adjudicated upon and admitted in the following amounts:

Retail Deposits – Financial Services Compensation Scheme (“FSCS”)	£547,062,084
Settlement with LBI hf (non-deferred)	£70,000,000
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	£1,621,426
Trade Creditors	£1,400,117
Employees	£1,693,595
RPO	£128,931
Settlement of Trust	<u>(£6,977,773)</u>
	<u>£1,073,011,508</u>

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

7.3.1 Other creditors

The Administrators have received claims of £1.6 million from other unsecured non-preferential creditors, comprising of amounts due to wholesale brokers and trade suppliers, of which claims totalling £1.4 million have been admitted.

Further to the settlement of the Swaylands House and Drummond Hall claims, a final distribution is to be made in due course, in the region of 1 pence in the pound.

7.4 Intercompany claims

7.4.1 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.

8. 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 fifteen interim dividends during the course of the administration, as previously reported, totalling 97.98p/£.

I will report to you again with a final progress report in the coming months.



Yours faithfully
for Heritable Bank Plc (In Administration)

A handwritten signature in black ink, appearing to be 'AR Bloom', with a long horizontal flourish extending to the right.

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
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 Colin Peter Dempster 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.

The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrator's appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

Appendix 1

Heritable Bank Plc (In Administration) - Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 13 February 2020

	Balance as at 13 August 2019	Movement from 14 August 2019 to 13 February 2020	Balance as at 13 February 2020
	£	£	£
Receipts			
SPF Interest	13,081,278	-	13,081,278
Mortgage Receipts	108,352,028	-	108,352,028
Sundry	130,733	-	130,733
Mortgage Redemptions	551,878,408	4,150	551,882,558
Funds from Aldermore Bank	158,062	-	158,062
SPF Loan Book Sale	6,313,208	-	6,313,208
SPF Plot Sale	491,842,472	-	491,842,472
SPF Capital Reduction	11,994,035	-	11,994,035
Post Appointment VAT refund	1,817,148	62,634	1,879,782
Receipts from ING	935,926	-	935,926
Refund of Cash Ratio from BOE	597,406	-	597,406
Financing	113,995	-	113,995
Bank Interest	1,862,132	46,829	1,908,960
Dividends From Subsidiaries	119,143,450	-	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
Recovered Court Costs	250,000	-	250,000
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	4,515,051	-	4,515,051
Transfer from Claims Reserve	21,992,205	-	21,992,205
HSBC Direct Debit Indemnity Return	2,000,000	-	2,000,000
Corporation Tax Refund	1,946,336	-	1,946,336
	1,371,574,535	113,613	1,371,688,148
Payments			
Direct Labour	12,067	-	12,067
Pension	1,000,545	-	1,000,545
Net Wages	7,904,578	35,748	7,940,327
Employees NIC Reimbursement / NIC	87,568	-	87,568
Employee Life Insurance	11,795	-	11,795
RML Other	70,744	-	70,744
Settlement	4,879,070	6,609,468	11,488,538
Professional Fees	261,866	-	261,866
Scottish Lodgement Fee	15	-	15
Refund of overpayment	144,482	-	144,482
Business Rates	2,245,845	-	2,245,845
Repayment of post-appointment receipts	52,859	-	52,859
Employee Expenses	38,161	-	38,161
Sundry Expenses	486,844	-	486,844
Bank Charges and Interest	68,917	59	68,976
Administrators Fees	31,235,871	-	31,235,871
Administrators Disbursements	106,698	-	106,698
Legal Disbursements	121,668	-	121,668
Legal Fees	13,669,306	-	13,669,306
Loans to Subs	6,310	-	6,310
SPF - Legal	1,698,347	-	1,698,347
Purchase Orders/Trade Suppliers	12,806,407	20,528	12,826,935
SPF Drawdown	98,443,802	-	98,443,802
RML Drawdown	2,699,594	-	2,699,594
HCP Drawdown	663,743	-	663,743
Ransom Payments - Trade / Legal	273,080	-	273,080
RML - Legal	330,386	-	330,386
Bawag Loan Interest	22,657,706	-	22,657,706
Bawag Loan fee	1,000,000	-	1,000,000
Transfer to claims reserve account	3,109,214	-	3,109,214
Payments on behalf of HCP	16,357,105	136,048	16,493,152
Direct Debit Indemnity Claims	69,729	-	69,729
Insurance	648,995	-	648,995
PAYE / NIC	5,463,622	31,341	5,494,963
Transfer to HSBC DD Cash Collateral A/c	148,224	-	148,224
Newcastle building society	670,025	-	670,025
Payments to Landsbanki Guernsey	44,014,930	-	44,014,930
Sale process due diligence costs	150,000	-	150,000
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
Fourth distribution to unsecured creditors	63,317,833	-	63,317,833
Catch up payments for previous dividends	408,474	-	408,474
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	45,565,923	-	45,565,923
Ninth distribution to unsecured creditors	42,203,502	-	42,203,502
Tenth distribution to unsecured creditors	36,752,076	-	36,752,076
Eleventh distribution to unsecured creditors	37,560,274	-	37,560,274
Twelfth distribution to unsecured creditors	28,679,470	-	28,679,470
Thirteenth distribution to unsecured creditors	30,265,568	-	30,265,568
Fourteenth distribution to unsecured creditors	167,787,541	-	167,787,541
Fifteenth distribution to unsecured creditors	42,697,099	-	42,697,099
Catch up dividend to LBI-hf	65,812,142	-	65,812,142
Oakwood Management Fee	10,612,090	-	10,612,090
Assignment of VAT Liability	128,165	-	128,165
Trade Creditors	11,186	-	11,186
Petty Cash	14,000	-	14,000
Property Surrender Payment	228,000	-	228,000
HMRC tax/nic deductions re emp dividend	218,723	-	218,723
Corporation Tax	35,387	-	35,387
Redemption Fee	6,863	-	6,863
	1,353,679,912	6,833,192.65	1,360,513,104.33
Balance of receipts and payments	17,894,623	-6,719,579.97	11,175,043

*The Corporation Tax refund related to overpayments in pre and post administration periods.

Appendix 2

Heritable Bank Plc (In Administration)

Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 13 February 2020

Classification of work function	Partner	Executive Director	Senior Manager	Manager	Senior	Staff	Total Hours	Average Hourly Rate (£)	Time costs to 13 August 2019 (£)	Time costs in the period 14 August 2019 to 13 February 2020 (£)	Total time costs to 13 February 2020 (£)
Accounting, Administration, Bank & Statutory Reporting, Statutory Duties and Immediate Tasks	322.1	32.9	1,133.3	1,512.9	4,496.0	10,213.2	17,710.4	261.08	£4,587,291.76	£36,490.21	£4,623,781.97
Creditors and Debtors	257.5	28.8	1,271.4	1,848.8	3,695.1	2,566.2	9,667.8	298.91	£2,874,929.72	£14,859.14	£2,889,788.86
Employee Matters	42.7	0.9	177.3	84.3	742.5	47.4	1,095.1	323.94	£353,983.28	£766.37	£354,749.65
FSA/BoE Reporting	7.5	1.0	112.3	93.0	199.0	-	412.8	369.87	£152,681.18	£0.00	£152,681.18
Investigations	2.0	0.5	14.0	3.5	17.0	38.0	75.0	125.43	£9,407.50	£0.00	£9,407.50
IT	20.0	-	562.5	322.0	155.5	6.4	1,066.4	545.85	£582,093.57	£0.00	£582,093.57
Legal Issues	103.5	9.9	40.5	9.0	306.6	107.8	577.3	386.88	£222,837.96	£509.83	£223,347.79
Other Assets and KBFC	10.0	0.5	49.2	75.6	20.8	16.0	172.1	396.24	£55,080.81	£13,111.36	£68,192.17
Property	4.2	-	505.0	78.2	64.5	23.5	675.4	641.58	£409,997.34	£23,329.12	£433,326.46
Public Relations	6.1	4.0	6.0	3.0	-	-	19.1	450.79	£8,610.00	£0.00	£8,610.00
Residential Mortgage	625.1	374.4	1,746.8	1,699.8	1,760.6	435.9	6,642.6	442.57	£2,939,821.78	£0.00	£2,939,821.78
Outsourcing of Residential Mortgage Book	129.5	130.8	764.0	69.0	144.8	2.7	1,240.8	560.37	£695,312.25	£0.00	£695,312.25
Retail Book	165.1	1.5	182.5	668.5	516.0	219.3	1,752.9	361.58	£628,511.01	£5,293.92	£633,804.93
Retention of Title	1.5	-	1.1	-	5.5	-	8.1	356.36	£2,886.50	£0.00	£2,886.50
Sale Process	180.8	123.8	425.3	355.0	1,491.0	76.4	2,652.3	428.04	£1,135,300.08	£0.00	£1,135,300.08
Structured Property Finance	663.8	865.8	5,721.2	3,740.8	8,433.1	1,562.6	20,987.3	431.09	£9,047,465.21	£0.00	£9,047,465.21
Steps pre-appointment	12.0	4.0	15.0	-	-	-	31.0	567.42	£17,590.00	£0.00	£17,590.00
Trading	4.0	-	391.8	1,611.2	1,264.2	604.2	3,875.4	311.31	£1,206,450.41	£0.00	£1,206,450.41
VAT & Taxation	193.5	296.6	615.9	767.6	1,082.2	827.8	3,783.6	488.68	£1,846,631.37	£2,350.38	£1,848,981.75
Wholesale Depositors	-	-	-	-	25.6	40.0	65.6	103.41	£6,784.00	£0.00	£6,784.00
Grand Total	2,750.9	1,875.4	13,735.1	12,942.2	24,420.0	16,787.4	72,511.0	370.71	£26,783,665.74	£96,710.33	£26,880,376.07

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.