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TO ALL KNOWN CREDITORS

14 January 2010

Ref: MLP7E/AB/IM/VS/LO3465/PF16.1

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Dear Sirs

## **Heritable Bank Plc (In Administration)**

**Court of Session number P1684/08**

**Registered office address: C/O Ernst & Young LLP, George House, Glasgow, G2 1RR**

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 18 July 2009 to 4 December 2009 and should be read in conjunction with the Administrators' proposals dated 20 November 2008 (the "Proposals") and the Administrators' progress reports dated 17 April 2009 (the "April Report") and 13 August 2009 (the "August Report").

Heritable Bank Plc (In Administration) ("Heritable"), 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.

Under the Rules, a progress report must be sent to creditors within six weeks after the end of each accounting period, which are usually consecutive six-month periods commencing on an administrator's appointment. However, in order to enable the payment of interim dividends, the Administrators have shortened the last two accounting periods (as dividends can only be declared and paid in respect of accounting periods which have ended). The second accounting period ended on 4 December 2009.

### **Summary of progress since the August Report**

#### **1. Deposits**

##### **1.1 Retail Deposits**

Please see the August Report for details of the retail deposit accounts transferred to ING.

## **1.2 In-House Accounts and Pending Accounts**

The position remains as per the August Report, namely those customers who are not eligible for compensation under the FSCS Compensation Scheme rules have been admitted as unsecured creditors in the administration.

## **1.3 Potential Trust Claims**

As outlined in the April and August Reports, the Administrators have investigated the extent to which certain sums received by Heritable prior to the administration and funds held in certain bank accounts may be subject to trust claims. Subject to the points below, the Administrators intend to make an application to the English court in due course for a determination as to who is entitled to the monies in the relevant accounts. Further background information in relation to such claims and the work that has been undertaken by the Administrators in this regard can be found on the Heritable website (<http://www.heritable.co.uk/aboutheritablebank/news/>).

As previously reported, as Heritable is a Scottish company, the Administrators have determined that a preliminary application to the Court of Session in Scotland is necessary in order for a request to be made to the English court to hear the substantive trust issues raised by the application. The Court of Session will also need to determine whether the creation of the trust amounted to an unfair preference as a matter of Scottish law.

Since the August Report, the Administrators have been in discussions with the affected parties in relation to this preference issue. As discussed with the affected parties and their advisers, the Administrators' legal advisers initially prepared court documents for the purposes of the application on a neutral basis, presenting both sides of the argument as to whether or not the purported trust arrangements constituted an unfair preference. These were then circulated to the affected parties for their comment and, more fundamentally, for those parties to consider whether they were content for the application to proceed on the proposed neutral basis.

Following further consideration, the affected parties have recently confirmed that they wish to appear jointly in the proceedings to make representations to the effect that the trust deed did not create an unfair preference. Advisers to those parties and the Administrators are now liaising in relation to the revision of the court documents, as well as procedure, given that the hearing will now proceed on a contested basis.

## **2. Heritable books of business**

### **2.1 Structured Property Finance**

The structured property finance ("SPF") loan book comprised 252 loans with a net book value of £317.2m at the date of administration (current net book value of £227.6m, net of LBG (defined below) exposures). Also included are 99 short term funding loans ("STLB") with a net book value of £26.9m at the date of administration (current net book value of £20.5m) transferred from the residential mortgage book for the purposes of reporting.

The loan book is continuing to perform well in the current economic conditions. Collections across the book as at 4 December 2009 totalled £183.9m (gross, including interest and fees) and remain ahead of forecast.

As previously reported, the strategy remains to run off the loan book. The Administrators are continuing to assess the return to creditors through a continued run-off compared with a sale of the remainder of the book, and plan to test the market for a potential sale when economic conditions are more favourable.

#### 2.1.1 SPF loan book

Net cash receipts (i.e. excluding receipts and payments relating to loans transferred to LBG, as to which see below) since the date of administration totalled £87.7m as at 4 December 2009, comprising 103 loan redemptions and other capital receipts of £132.3m, interest and fees of £6.3m less draw-downs of £50.9m. The number of loans outstanding has decreased from 252 to 149 loans, with a net book value of £227.6m.

The outstanding loan book comprises loans relating to land/sites (with and without planning) (14.2%), ongoing development projects (54.8%) and completed stock (31.0%).

The largest 25 borrower groups account for c.75% of the current net exposure. A recovery strategy has been determined for each of the borrower groups remaining and, in line with these strategies, we have continued to meet requests for committed funds where expenditure helps to preserve the value of the loan book as well as collecting interest and repayments on existing loans. This is continually revisited as construction and negotiations with the borrowers progress.

The Administrators are actively pursuing the completion of any exchanged contracts in relation to properties and, where appropriate, working to accelerate the sales or refinancing of any unsold units in an orderly fashion so as to minimise the impact on recoveries.

Where a borrower has defaulted on their loan and the Administrators have concluded that the continued support of that borrower is not likely to maximise value, a formal demand has been issued and, in a number of cases, a Law of Property Act Receiver ("LPA Receiver") has been appointed.

To date we have issued formal demands on 69 borrowers and have appointed LPA Receivers in respect of properties held by 27 borrower groups. This includes appointments over the STLB loans managed by SPF.

Furthermore we have generated £5.5m of sales through auction. This includes £2m in relation to the STLB.

### 2.1.2 STLB Loan Book

Net cash receipts in relation to these 99 development loans totalled £9.5m as at 4 December 2009, comprising 21 loan redemptions and other receipts of £12.2m, less draw-downs of £2.7m.

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

As described in the August Report, we continue to work 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. To facilitate this, we have completed the assignment of security over all the fully transferred loans.

There remain five borrower groups where a combined approach is required. Payments to LBG since the date of administration total £36.2m (compared with £24.5m as detailed in the August Report). Such payments comprise £34.2m of capital receipts and £2m of interest.

### 2.3 Residential Mortgages (“RM”)

As discussed in the August Report, 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 book value of the loan book on appointment was c. £690m (including c. £64.7m in relation to the ST loan book). This has reduced to c. £476.8m as at 4 December 2009. Creditors should be aware that £58.5m (£26.9m net of impairments) of the overall £213.2m reduction has been as a direct result of certain short term and other complex loans (including the STLB) being transferred from the RM division to the SPF division.

Receipts to date, including interest collections and redemptions, total c. £151m. Draw-downs of £2.7m have been made since the Administrators’ appointment.

As discussed in the August Report, the Administrators were in advanced negotiations in relation to the outsourcing of the administration of the RM loan book. The Administrators have now entered into an agreement with Oakwood Global Finance LLP in relation to the same. The decision to outsource was made with a view to improving arrears and litigation management, enhancing redemptions and preparing the book for a future sale. The outsourcing arrangements commenced on 27 August 2009. The Administrators are confident that the outsourcing of the book should have no impact on the service provided to customers.

### **3. Subsidiary Companies**

#### **3.1 Heritable Capital Partners Limited (In Administration) (“HCP”)**

Heritable is by far the largest creditor of HCP, being the beneficiary of an intercompany liability of c. £28.4m.

There are seven HCP loans, including three separate loans relating to a development at Swaylands, Kent.

Progress continues to be made in relation to all loans. In particular, four reservations for apartments at the Swaylands development have been secured, with two completed sales and considerable further interest since the public launch of the development in October 2009.

#### **3.2 Heritable Asset Finance Limited (In Administration) (“HAF”)**

The loan book is continuing to perform well in the current economic conditions. Collections as at 4 December 2009 were £46.2m (including interest) and remain ahead of forecast. The book value of the loan book is currently c. £33.8m.

As discussed in the August Report, arrears had reduced to £1.2m as at 17 July 2009. This figure had reduced further to £0.83m as at 4 December 2009 following a further collection exercise in which two payments per month were collected from borrowers, one of which covered arrears arising from the initial disruption to HAF’s Direct Debit collection facility.

As previously reported, permission to make distributions to unsecured creditors was granted by the Court on 22 April 2009. A first distribution was made to unsecured creditors on 1 July 2009 of 34.61 pence in the pound, amounting to £26,046,504 in total. Heritable (as majority creditor) received a first interim dividend of £25,961,761. A second distribution was made to unsecured creditors on 4 December 2009 of 17.80 pence in the pound, amounting to £13,380,909 in total. Heritable received a dividend of £13,373,547. Dividends to date therefore total £39,335,308, or 52.41 pence in the pound.

The Administrators are continuing to assess the return to creditors through a continued run-off compared with a sale of the remainder of the book.

#### **3.3 Key Business Finance Limited (In Administration) (“KBFL”) and Key Business Finance Corporation Plc (In Administration) (“KBFC”)**

As described previously in the Proposals, certain of the loans made by KBFC and KBFL to customers were funded by and subject to a charge in favour of Fortis Lease (UK) Limited (“Fortis”) dated 22 April 2002 (the “Charged Loans”).

As detailed in the August Report, on 6 August 2009, the Administrators sold all KBFC and KBFL loans other than the Charged Loans (the “Non-Charged Loans”) to a vehicle owned by the existing management team for consideration of c. £5m. The sale returned value in respect of those loans at the level of c. 60 pence in the pound, compared with the 50 pence in the pound originally anticipated.

On 3 September 2009, the Charged Loans were sold to Fortis. The loans were sold in consideration of (i) the full release and waiver of any and all debts, liabilities, obligations, claims, actions or amounts owing by KBFC or KBFL to Fortis under the loan agreement pursuant to which KBFC and KBFL had borrowed money from Fortis to fund the Charged Loans, (ii) a release and waiver in respect of the charge over the Charged Loans and (iii) payment by KBFC to Fortis of all proceeds collected by KBFC to date in respect of the Charged Loans, save for an amount of £600k, being the amount equivalent to the maximum prescribed part, and a contribution towards costs of the administration of £195k, such amounts being retained by KBFC.

All remaining KBFC staff (who were employed by Heritable) transferred to the purchaser of the Non-Charged Loans.

Again, on 22 April 2009, the Court granted permission to make distributions to unsecured creditors. A first distribution was made to unsecured creditors on 1 July 2009 of 73.96 pence in the pound, amounting to £36,683,463 in total. Heritable (as majority creditor) received a dividend of £36.2m. A second and final dividend of 19.53 pence in the pound was paid on 4 December 2009, amounting to £9,526,116 in total. Heritable received a dividend of c. £9.4m in respect of its claim. Unsecured creditors of KBFC therefore received a total dividend in the administration of 93.49 pence in the pound in respect of their claims.

The Administrators have extended the administrations of KBFC and KBFL until April 2010, for the purposes of carrying out the final steps required before the companies can be dissolved (without the need for an interim liquidation).

#### **4. Customer Collections**

Please see the April and August Reports for the background to the Direct Debit collection issues.

To date, Direct Debit indemnity claims totalling £8,388 and £2,359 have been settled with HSBC as an expense of the administrations of Heritable and HAF respectively.

Once the administrators of Heritable and HAF are in a position to cease trading and bring the respective administrations 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 Administrators.

## **5. Landsbanki Islands Hf (“LIHF”) Creditor Guarantees**

As described in the August Report, a Winding-up Board for LIHF has been appointed by the Reykjavik District Court to handle claims against LIHF and its eventual winding-up. The Winding-up Board gave notice in April 2009 that they required creditors to lodge any claims against LIHF by 30 October 2009.

Therefore, it appears that any Heritable creditor who has not submitted a claim to date under the LIHF guarantees (as described in the Proposals and the April and August Reports) is now time-barred from doing so.

## **6. Employees**

Since the August Report, a further three employees have resigned and three employees have been made redundant. Additionally, as a result of the outsourcing of the RM loan book and the sale of the KBFC loan book, eleven and six employees respectively have been subject to a statutory transfer to Oakwood and the purchaser of the KBFC book respectively. One new employee has been employed on a temporary basis.

Retention plans are in place for the remaining employees based upon their service line. The retention plans for certain service lines were reviewed in December 2009 and further retention plans were put in place. The Administrators intend to periodically review the headcount and consider whether any further redundancies are appropriate.

## **7. Statutory Matters**

The Administrators continue to fulfil their statutory requirements in respect of the administration.

## **8. Receipts and payments account**

I enclose a receipts and payments account for the period from 7 October 2008 to 4 December 2009. This does not reflect estimated future realisations or costs.

To date receipts total £455,344,249.

Cash at 4 December was £131,945,275 after total payments of £323,398,973.

For the period from 18 July to 4 December 2009, receipts totalled £163,670,223 and payments totalled £223,149,316 (substantially comprising payments made to creditors in respect of the first interim dividend).

Please note that a second interim dividend of 12.66 pence in the pound, totalling c. £128m, was made on 16 December 2009 as reported below. As such, the 4 December cash balance detailed above has since been reduced by this sum.

## **9. Joint Administrators' remuneration and disbursements**

The Administrators' remuneration was fixed on a time-cost basis by a resolution of the Committee passed on 22 December 2008. To date, the Administrators have incurred time costs of £11,109,562 (excluding VAT) against which the sum of £11,077,510.28 (excluding VAT) has been drawn. An analysis of the time spent is attached as Appendix 2 to this report. At Appendix 3, there is a statement of the Administrators' policy in relation to charging time and disbursements.

All remuneration drawn to date has been reviewed and approved by Heritable's Creditors' Committee.

To date, the sum of £18,000 (including VAT) has been drawn in respect of disbursements, as recorded in the abstract of receipt and payments at Appendix 1.

## **10. Creditors**

### **10.1 Secured creditors**

There are no secured creditors.

### **10.2 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 on 28 July 2009. The amount of this distribution was £34,843.21.

### **10.3 Non-preferential creditors**

Total non-preferential claims received (excluding those received from LIHF, which are described in section 10.4 below) amounted to c. £1.009 billion. These claims were adjudicated upon and admitted in the following amounts:

Retail Deposits - FSCS	£547,062,084
In House and Pending Accounts – FSCS	£8,066,899
In House and Pending Accounts – not paid by FSCS	£585,389
Landsbanki Guernsey	£34,347,647
Wholesale Deposits	£416,565,214
Trade Creditors	£1,033,828



Employees	£1,441,946
RPO	<u>£75,150</u>
	<u>£1,009,178,157</u>

Excluding the claims made by LIHF, claims totalling £109,171 were formally rejected.

With respect to claims submitted by LIHF, LIHF's RCF Claim (defined below), in an amount of c.£86m, has been rejected but the rejection has been appealed by LIHF. LIHF's Guarantee Claim and Subordinated Debt Claim (each defined below) have been treated as contingent claims and valued at zero. Further details in respect of the treatment of these claims and the appeal filed by LIHF are set out in section 10.4 below.

### 10.3.1 Retail Deposits

The position remains as previously reported.

### 10.3.2 In-House Account and Pending Accounts

To date, the FSCS has provided compensation of £8,066,890 in respect of aggregate Pending Account and In-House Account (each as defined in the August Report) balances of c. £9.52m. This balance amounted to £8,068,460 at the time of the August Report, the difference relating to an amount repaid by a customer who was not entitled to compensation and was paid in error by the FSCS.

The balance of the In-House Accounts excluded under the FSCS Compensation Scheme rules, or in respect of which the FSCS is still reviewing applications for compensation, totals c. £585k (previously reported to be £584k due to the customer paid in error). These customers were admitted as unsecured creditors in the administration.

There were further depositors with balances totalling c. £866k to whom Heritable had provided loans and mortgages. Their deposit balances were set off against their loans in accordance with the applicable rules of set-off in the administration.

### 10.3.3 Wholesale Deposits

The position remains as previously reported.

### 10.3.4 Other Creditors

We received claims of £1,431,598 from other non-preferential unsecured creditors. These comprise amounts due to wholesale brokers and trade suppliers. We have admitted claims totalling £1,033,828 for the purposes of the second interim dividend (£947,567 for the first dividend) and rejected claims totalling £124,354.

### 10.3.5 Employees

The non-preferential element of employees' claims admitted for the second interim dividend totalled £1,441,946 (£1,484,571 for the first interim dividend). The reduction in this amount was due to the mitigation of such claims (by virtue of other amounts received by the relevant employees). As described in the August Report, amounts received in mitigation were not taken into account for the purposes of the first interim dividend (as they were not known at that time) and therefore an adjustment was made to payments in respect of the second interim dividend to reflect this.

The RPO claim relating to payments made to employees in respect of the non-preferential elements of their claims was admitted for £75,151 (previously reported as £62,500).

## 10.4 Intercompany Claims

### 10.4.1 Intercompany liabilities

As discussed in the August Report, LIHF has submitted the following three claims in Heritable's administration:

- (i) a claim for c. £86m (made up of c. £81m and c. €6m) in respect of amounts borrowed by Heritable from LIHF under a £400m revolving loan facility agreement dated 31 May 2002 (as amended) (the "RCF Claim");
- (ii) a claim for £50m for amounts borrowed by Heritable under a subordinated loan agreement dated 13 August 2001 (the "Subordinated Debt Claim"); and
- (iii) a claim for indemnity in an amount of £1,011,817,245 in respect of its potential liabilities to Heritable's creditors under the guarantees provided for their benefit (the "Guarantee Claim").

The current position in respect of each claim is summarised below.

#### *RCF Claim*

The Administrators believe Heritable to have a number of separate claims against LIHF which, if applied in set-off against the RCF Claim, would extinguish it in its entirety. These claims, in an aggregate amount of up to £900m, can be summarised as follows:

- a debt claim for an early termination amount and unpaid net interest payable by LIHF to Heritable following the close-out of certain interest rate swaps between the parties;
- a debt claim for reimbursement of certain payments made by Heritable on LIHF's account in respect of LIHF's Icesave business;
- debt and damages claims stemming from certain sub-participation arrangements between LIHF and Heritable; and

- a damages claim under the £400m revolving credit facility based upon LIHF's refusal on 7 October 2008 to provide any further funding to Heritable under this agreement, resulting in Heritable's administration.

As mentioned in section 5 above, the bar date for the submission of claims in the winding-up process to which LIHF is subject was 30 October 2009. In order to protect Heritable's rights to set off its claims against the RCF Claim and, to the extent that the value of those claims exceed the value of the RCF Claim, to participate in any distribution made by LIHF to its general class of creditors, the Administrators formally submitted claims in LIHF's winding-up (including appropriate reservations with regard to the adjudication of the RCF Claim in accordance with the law governing Heritable's administration) prior to the bar date. The Winding-up Board of LIHF has not yet formally adjudicated upon Heritable's claims in the winding-up.

The Administrators wrote to LIHF on 6 November 2009 to reject the RCF Claim by reason of set-off against the above claims. LIHF then lodged an appeal with the Scottish Court of Session on 20 November 2009, the relevant documentation indicating a preliminary rejection by LIHF of the majority, if not all, of Heritable's claims.

The appeal process is continuing. Pursuant to applicable Scottish legislation, until the appeal has been determined, the Administrators are required to set aside an amount sufficient to pay LIHF a dividend on the full amount of the RCF Claim (i.e. the sum that LIHF would otherwise have received to date in the administration had its claim been admitted in full). Accordingly, provision has been made in full for a first and second interim dividend in respect of the RCF Claim in a total amount of £24,751,308.

#### *Subordinated Claim and Guarantee Claim*

The Administrators have notified LIHF that the Subordinated Debt Claim and the Guarantee Claim have been treated as contingent claims and valued at zero, and that LIHF is not currently entitled to rank for or be paid a dividend in respect of such claims.

The Subordinated Debt Claim is expressly subordinated to all other liabilities of Heritable, no amount being payable thereunder unless and until the claims of all other creditors of Heritable are satisfied in full. The Administrators believe there to be no prospect of this happening (by virtue of dividends in Heritable's administration or payments by LIHF under its guarantee) and, therefore, any sum being payable to LIHF in respect of the Subordinated Debt Claim. The claim has therefore been valued at zero.

Similarly, in respect of the Guarantee Claim, LIHF is not entitled to claim in Heritable's administration unless and until (i) all of Heritable's other liabilities are paid in full and (ii) LIHF makes payment to any of Heritable's creditors under the guarantee (as a matter of general law and pursuant to the terms of the guarantee itself, LIHF may not exercise any rights against Heritable until all of the guaranteed liabilities have been paid and discharged in full). Based on the information and evidence available regarding the prospects for payment by LIHF of a dividend to its general creditors, and all other circumstances (including the amount of the likely deficit in Heritable's administration), the Administrators have concluded that there is no

prospect of any sum being payable to LIHF in respect of the Guarantee Claim. The claim has therefore been valued at zero.

LIHF has confirmed that no provision presently needs to be made by Heritable in respect of either the Subordinated Debt Claim or the Guarantee Claim. However, LIHF has indicated that it is considering whether it wishes to appeal against the Administrators' valuation or position in respect of such claims.

#### 10.4.2 Intercompany receivables

As per the records of Heritable, intercompany receivables (other than the amounts claimed by Heritable 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	£75,147,222
Heritable Capital Partners Limited	<u>£24,095,925</u>
	<u>£148,219,269</u>

Heritable's claim in the administration of HAF has increased by £134,910 due to the assignment by KBFC to Heritable of a claim against HAF arising from certain payments made to HMRC by KBFC in respect of group VAT liabilities.

Claims have been submitted by Heritable in the administration of the respective subsidiaries as a creditor for the above amounts.

As stated above, on 4 December 2009, HAF paid a second interim dividend of 17.80 pence in the pound and KBFC paid a second and final dividend of 19.53 pence in the pound. Heritable duly received £13,373,547 and £9,436,969 respectively in respect of its claims against those companies.

### 11. Distributions to Creditors

As previously reported, Heritable declared and paid a first and final dividend of 100 pence in the pound to preferential creditors, and an initial dividend of 16.13 pence in the pound to unsecured creditors, on 28 July 2009.

Heritable declared and paid a second dividend to unsecured creditors of 12.66 pence in the pound on 16 December 2009 totalling £127,756,204. The second dividend has been made in accordance with the scheme of division included at Appendix 4 to this report.

The Administrators intend to declare a third interim dividend to unsecured creditors during the course of 2010. The precise timing and quantum of this dividend remains subject to the continued collection of funds via a run-off of the various loan books.

I will report to you again in six months' time.

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' 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 second interim dividend

The Insolvency Practitioners Association 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 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 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 4 December 2009

	Balance as at 17 July 2009	Movement from 18 July 2009 to 4 December 2009	Balance as at 4 December 2009
	£	£	£
<b>Receipts</b>			
SPF Interest	4,925,692	3,619,098	8,544,790
Mortgage Receipts	27,536,086	12,659,116	40,195,201
Sundry	161,830	2,385,640	2,547,469
Mortgage Redemptions	67,011,374	42,529,650	109,541,024
SPF Drawdown Facility	19,998,898	(1,298)	19,997,600
Unallocated Receipts	23,632	(23,632)	-
Funds due to Heritable Asset Finance	4,247	(4,247)	-
SPF Plot Sale	103,977,879	75,495,237	179,473,116
SPF Capital Reduction	1,074,515	1,235,057	2,309,572
Receipts from ING	847,929	88,823	936,752
Refund of Cash Ratio from BOE	597,406	-	597,406
Financing	113,995	-	113,995
Bank Interest	303,137	105,464	408,600
Dividends From Subsidiaries	62,184,501	22,984,189	85,168,690
Intercompany Recharges	2,775,866	2,017,432	4,793,298
Cash at Bank	137,042	46,804	183,846
Transfer from Claims Reserve	-	532,889	532,889
	<u>291,674,026</u>	<u>163,670,223</u>	<u>455,344,249</u>
<b>Payments</b>			
Direct Labour	12,067	-	12,067
Pension	454,678	97,768	552,447
Net Wages	2,580,283	1,224,748	3,805,031
Employees NIC Reimbursement	11,455	2,918	14,373
Employee Life Insurance	8,479	-	8,479
RML Other	5,815	(220)	5,595
Professional Fees	14,747	80,655	95,402
Scottish Lodgement Fee	15	-	15
Refund of overpayment	18,751	48,622	67,372
Business Rates	111,597	44,437	156,033
Repayment of post-appointment receipts	52,859	-	52,859
Employee Expenses	16,377	9,948	26,325
Sundry Expenses	90,441	18,392	108,833
Bank Charges and Interest	20,297	8,661	28,958
Administrators Fees	9,489,700	2,440,607	11,930,307
Outsourcing Fees	269,124	-	269,124
Administrators Disbursements	16,391	1,609	18,000
Legal Disbursements	46,566	25,732	72,298
Legal Fees	2,750,728	927,610	3,678,339
Loans to Subs	620	-	620
SPF - Legal	361,744	185,321	547,066
Purchase Orders/Trade Suppliers	2,189,708	1,598,991	3,788,699
SPF Drawdown	26,866,929	17,405,881	44,272,810
RML Drawdown	2,240,727	458,867	2,699,594
Ransom Payments - Trade / Legal	273,080	-	273,080
RML - Legal	133,233	123,089	256,321
Bawag Loan Interest	22,657,706	-	22,657,706
Bawag Loan fee	1,000,000	-	1,000,000
Payments on behalf of HCP	1,392,347	3,370,180	4,762,527
Direct Debit Indemnity Claims	10,775	3,651	14,426
Insurance	97,545	-	97,545
PAYE	1,779,662	807,120	2,586,782
Transfer to HSBC DD Cash Collateral A/c	140,005	6,407	146,412
Payments to Landsbanki Guernsey	24,540,982	11,427,428	35,968,410
VAT Payment	863,350	827,517	1,690,866
Distribution to preferential creditors	-	36,698	36,698
First distribution to unsecured creditors	-	181,416,148	181,416,148
Oakwood Management Fee	-	100,000	100,000
Funds owed to Heritable Asset Finance	-	456	456
Assignment of VAT Liability	-	128,165	128,165
Petty Cash	-	3,500	3,500
VAT payable	-	49,288	49,288
	<u>100,249,658</u>	<u>223,149,316</u>	<u>323,398,973</u>
	<u>191,424,369</u>	<u>(59,479,093)</u>	<u>131,945,275</u>
<b>Represented By:</b>			
Bank of England NIB Current A/c	-	-	-
Royal Bank of Scotland	151,217,858	(32,736,957)	118,480,902
HSBC Current Account	23,606,510	(21,619,206)	1,987,305
RBOS Money Market - 2 weeks	13,500,000	(13,500,000)	-
RBOS Money Market - 1 Month	3,100,000	(3,100,000)	-
HSBC - SPF account	-	11,477,069	11,477,069
	<u>191,424,369</u>	<u>(59,479,093)</u>	<u>131,945,275</u>

**Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 4 December 2009 for the DD Cash Collateral Account**

	7 October 2008 to 17 July 2009	Movement from 18 July 2009 to 4 December 2009	Balance as at 4 December 2009
	£	£	£
<b>Receipts</b>			
Cash at Bank	1,960,000	-	1,960,000
Transfer from Administration Account	140,005	6,407	146,412
	<u>2,100,005</u>	<u>6,407</u>	<u>2,106,412</u>
<b>Payments</b>			
Direct Debit Refunds	2,817	6,407	9,224
Legal Fees	92,187	-	92,187
Bank Facility Fee	5,000	-	5,000
	<u>100,005</u>	<u>6,407</u>	<u>106,412</u>
	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
<b>Represented by:</b>			
Current account	2,000,000	-	2,000,000
	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>

**Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 4 December 2009 for the Euro Account**

	7 October 2008 to 17 July 2009	Movement from 18 July 2009 to 4 December 2009	Balance as at 4 December 2009
	£	£	£
<b>Receipts</b>			
SPF interest	177,782	47,643	225,425
SPF capital reduction	579	-	579
	<u>178,361</u>	<u>47,643</u>	<u>226,004</u>
<b>Payments</b>			
Bank charges	56	80	136
Transferred to Sterling account	158,650	54,611	213,261
	<u>158,706</u>	<u>54,691</u>	<u>213,397</u>
	<u>19,655</u>	<u>(7,048)</u>	<u>12,607</u>
<b>Represented by:</b>			
Euro current account	19,655	(7,048)	12,607
	<u>19,655</u>	<u>(7,048)</u>	<u>12,607</u>

**Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 4 December 2009 for the Claims Reserve Account**

	7 October 2008 to 17 July 2009	Movement from 18 July 2009 to 4 December 2009	Balance as at 4 December 2009
	£	£	£
<b>Receipts</b>			
Reserve for unsettled claims and provision	-	18,738,369	18,738,369
Bank interest	-	13,967	13,967
	<u>-</u>	<u>18,752,336</u>	<u>18,752,336</u>
<b>Payments</b>			
Transfer to administration account	-	532,889	532,889
	<u>-</u>	<u>532,889</u>	<u>532,889</u>
	<u>-</u>	<u>18,219,447</u>	<u>18,219,447</u>
<b>Represented by:</b>			
Royal Bank of Scotland	-	18,219,447	18,219,447
	<u>-</u>	<u>18,219,447</u>	<u>18,219,447</u>

## Appendix 2

### Heritable Bank Plc (In Administration)

#### Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 4 December 2009.

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/duties	170.60	8.50	593.70	445.90	671.80	3,725.90	5,616.40	252.97	1,420,799.50
Creditors	131.50	1.00	283.10	394.60	1,030.20	1,291.00	3,131.40	265.07	830,033.00
Employee Matters	39.30	-	149.80	56.50	471.80	28.30	745.70	333.01	248,329.00
FSA/BoE Reporting	7.50	1.00	110.80	86.50	86.50	-	292.30	393.22	114,939.50
Investigations	2.00	-	13.50	3.50	17.00	-	36.00	354.44	12,760.00
Legal Issues	24.00	2.00	15.50	-	-	3.00	44.50	587.30	26,135.00
Other Assets	5.00	-	6.00	74.50	20.80	16.00	122.30	363.34	44,437.00
Public Relations	6.10	4.00	6.00	3.00	-	-	19.10	450.79	8,610.00
Residential Mortgage	125.00	310.40	483.60	1,002.30	953.10	314.10	3,188.50	390.68	1,245,680.00
Outsourcing of Residential Mortgage Book	11.00	130.80	764.00	57.00	85.00	-	1,047.80	481.81	504,836.50
Retail Book	32.50	-	182.50	648.50	516.00	219.30	1,598.80	327.61	523,786.00
Retention of Title	1.50	-	1.10	-	5.50	-	8.10	356.36	2,886.50
Sale Process	54.00	104.00	79.50	101.00	585.50	55.00	979.00	402.42	393,970.00
Structured Property Finance	339.20	771.00	1,933.20	2,041.80	4,392.30	203.50	9,681.00	439.82	4,257,895.50
Steps pre-appointment	12.00	4.00	15.00	-	-	-	31.00	590.00	18,290.00
Trading	1.50	-	389.30	560.70	709.20	472.00	2,132.70	308.63	658,217.00
VAT & Taxation	89.40	149.50	396.20	274.80	374.40	116.50	1,400.80	559.95	784,373.50
Wholesale Depositors	-	-	-	-	25.60	40.00	65.60	207.07	13,584.00
<b>Grand Total</b>	<b>1,052.10</b>	<b>1,486.20</b>	<b>5,422.80</b>	<b>5,750.60</b>	<b>9,944.70</b>	<b>6,484.60</b>	<b>30,141.00</b>	<b>368.59</b>	<b>11,109,562.00</b>

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 2009/2010	Standard Rates for M&A 2009/2010
Partner	700	765
Director	635	670
Assistant Director	490	590
Senior Executive	360	-
Executive	265	330
Assistant Executive	205	-
Client Service Associate	195	-
Analyst	170	170
Business Trainee	145	-



## **Appendix 3**

### **Heritable Bank Plc (In Administration)**

#### **Office Holders' Charging Policy for Fees**

Heritable'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 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 Heritable'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 Heritable'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)

#### Scheme of division in respect of second interim dividend as at 11 December 2009

	£	£
Balance of Receipts and Payments account <sup>1</sup>		152,054,370.31
Balance of Reserve account		18,217,994.09
 <u>Provisions for Certain Payments</u>		
Administrators' fees (unbilled)	762,724.39	
Administrators' fees (6 months)	2,530,800.00	
Legal costs (6 months)	1,614,000.00	
Trading costs (6 months)	3,097,186.98	
Rent – Clarges House (to June 2012)	1,041,269.80	
Late payments in respect of first dividend <sup>2</sup>	60,086.91	
Further provision for costs	893,931.92	
		<hr/> (10,000,000.00)
Provision for potential payments in respect of first interim dividend		(18,217,994.09)
Provision for potential payments in respect of second interim dividend <sup>3</sup>		(14,298,166.38)
		<hr/> 127,756,203.93
Balance available for second interim dividend to unsecured creditors		

The estimated sum of £127,756,203.93 represents a dividend of c. 12.66 pence in the pound to unsecured creditors whose claims total £1,009,178,156.97.

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<sup>1</sup> Includes £7m held in a Freshfields client account as at 11 December and paid into Heritable's trading account on 14 December 2009

<sup>2</sup> This relates to payments made to creditors who did not submit claims prior to the last date for proofs in respect of the first interim dividend but have done so (and been admitted) subsequently.

<sup>3</sup> Breakdown set out below

### Provision for potential payments in respect of second interim dividend

	Note	£
Estimated Employees' Claims	1	1,546,958.31
Trade Creditors	2	412,449.74
LIHF RCF Claim	3	85,985,378.60
		<hr/>
		87,944,786.65
General Provision	4	25,000,000.00
		<hr/>
Total Provisions		112,944,786.65
		<hr/>
Dividend of 12.66p/£		14,298,809.99

#### Notes:

1. This relates to future potential redundancy costs.
2. This relates to the claims of creditors included in the Statement of Affairs who have not yet submitted a claim in the administration.
3. This relates to the RCF Claim made by LIHF. The claim has been rejected in full for the reasons described in section 10.4. LIHF has appealed the rejection of its claim and, under applicable legislation, Heritable is required to make a provision for the dividend in respect of the full amount of this claim pending resolution of the appeal.
4. A general provision of £25m has been made for any unknown potential claims.