

To All Known Creditors

20 November 2008

Our ref: LO3465/AB/JP/OL/PF5

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Dear Sirs

Heritable Bank Plc (in Administration) (the "Company")

I write further to the appointment of ME Mills, TM Burton and PJ Brazzill and myself as Joint Administrators of the Company and attach a copy of the Administrators' Statement of Proposals in accordance with paragraph 49 of Schedule B1 to the Insolvency Act 1986.

Formal notices convening the statutory meeting of the creditors pursuant to paragraph 51 of Schedule B1 to the Insolvency Act 1986 are enclosed. Creditors of the Company will only be permitted to vote provided that details of their relevant claims are received no later than 12 noon on **Monday 8th December 2008**, in accordance with Rule 7.16(5) of the Insolvency Rules 1986. A Notice of Claim form is also enclosed for this purpose.

Please note that you are not obliged to attend the creditors' meeting and you will not compromise your claim and entitlement to dividend if you do not attend. The law recognises that creditors are not always able to attend in person and allows you to ask a representative to attend as proxy and vote on your behalf.

A proxy form for voting purposes is therefore also enclosed to enable a representative to attend the meeting on your behalf. Please note that your completed proxy form should be lodged with the Joint Administrators at Ernst & Young LLP, 1 More London Place, London, SE1 2AF for the attention of Jamshed Zia or Amer Saleem and should be received no later than 12 noon on **Monday 8th December 2008**. Faxed copies will be accepted and should be sent to 020 7951 9997 also for the attention of Jamshed Zia or Amer Saleem. You may also email completed forms to jzia@uk.ey.com or asaleem@uk.ey.com.

For further information regarding Notice of Claim forms and voting by proxy, please see the common questions and answers enclosed at Appendix F of the Statement of Proposals.

Where possible, any creditor wishing to be considered for election to the creditors' committee should inform the Administrators of their interest prior to the creditors' meeting and if possible by 12 noon on **Monday 8th December 2008**, in order that the voting process can be conducted more efficiently on the day. Again, please advise Jamshed Zia or Amer Saleem on the above address, fax number or email addresses.



INVESTOR IN PEOPLE

If you have any queries concerning this report or the enclosures please contact the Joint Administrators, at Ernst & Young LLP, 1 More London Place, London, SE1 2AF or Jamshed Zia on 0207 951 7166 or Amer Saleem 0207 951 3539 or by fax on 020 7951 9997.

Yours faithfully
for Heritable Bank Plc



AR Bloom
Joint Administrator

Enc: Administrators' statement of proposals
Form 2.20B - notice of creditors' meeting
Form 4.29 - proxy form
Notice of claim form for voting purposes

The Insolvency Practitioners Association authorises Patrick J 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 M 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 R Bloom and Maggie E 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.



Notes to Administration Proof of Debt Form:

1. Please attach a detailed statement of your account as at the date on which the Company entered Administration
2. If your claim is preferential (e.g. for wages, holiday pay or certain pension arrears) or secured please give details and attach supporting documentation.
3. VAT bad debt relief may usually be claimed six months after the date of supply.

Extracts from the Insolvency (Scotland) Rules 1986

2.33 Hire-purchase, conditional sale and hiring leasing agreements

(1) Subject as follows, an owner of goods under a hire-purchase agreement or under an agreement for the hire of goods for more than 3 months, is entitled to vote in respect of the amount of the debt due and payable to him by the company on the date that the company entered administration.

(2) In calculating the amount of any debt for this purpose, no account shall be taken of any amount attributable to the exercise of any right under the relevant agreement, so far as the right has become exercisable solely by virtue of the making of an administration application, a notice of intention to appoint an administrator or any matter arising as a consequence, or of the company entering administration.

Proxy

Pursuant to Rules 7.14 and 7.15 of the Insolvency (Scotland) Rules 1986

(a) Insert name of company

(a) Heritable Bank Plc

(b) Insert nature of insolvency proceedings

(b) Administration

Name of Creditor/Member

Address

(hereinafter called "the principal").

(c) insert the name and address of the proxy-holder and of any alternatives. A proxy-holder must be an individual aged over 18.

Name of proxy-holder (c) 1.

Address

whom failing 2.

whom failing 3.

*Delete as appropriate

I appoint the above person to be the principal's proxy-holder at
*[all meetings in the above Insolvency proceedings relating to the above company]
*[the meeting of *creditors/members of the above Company to be held on 9 December 2008 or at any adjournment of that meeting].

Voting Instructions

The proxy-holder is authorised to vote or abstain from voting in the name, and on behalf, of the principal in respect of any matter*/s, including resolution*/s, arising for determination at said meeting*/s and any adjournment*/s thereof and to propose any resolution*/s in the name of the principal, either

- (i) in accordance with instructions given below or,
- (ii) if no instructions are given, in accordance with his/her own discretion.

(d) Complete only in you wish to instruct the proxy-holder to vote for a specific person as liquidator

(d) 1. To *propose/support a resolution for the appointment of _____ of _____ whom failing _____

as liquidator of the company.

(e) Delete if the proxy-holder is only to vote as directed in (1).

(e) [in the event of a person named in paragraph (1) withdrawing or being eliminated from any vote the proxy-holder may vote or abstain in any further ballot at *his/her discretion.]

(f) Set forth any voting instructions for the proxy-holder. If more room is required attach a separate sheet

2. (f) _____

Signed _____

Date _____

Name in BLOCK LETTERS _____

Position of signatory in relation to the *creditor/or member or other authority for signing.

Notes for the Principal and Proxy-holder

1. The chairman of the meeting who may be nominated as proxy-holder, will be the insolvency practitioner who is presently *liquidator/receiver/administrator/nominee under the voluntary arrangement or a director of the company.
2. All proxies must be in this form or a form substantially to the same effect with such variations as circumstances may require. (Rules 7.15(3) and 7.30).
3. To be valid the proxy must be lodged at or before the meeting at which it is to be used. (Rule 7.16(2)).
4. Where the chairman is nominated as proxy-holder he cannot decline the nomination. (Rule 7.14(4)).
5. The proxy-holder may vote for or against a resolution for the appointment of a named person to be liquidator jointly with another person, unless the proxy states otherwise. (Rule 7.16(4)).
6. The proxy-holder may propose any resolution in favour of which he could vote by virtue of this proxy. (Rule 7.16(5)).
7. The proxy-holder may vote at his discretion on any resolutions not dealt with in the proxy, unless the proxy states otherwise. (Rule 7.16(6)).
8. The proxy-holder may not vote in favour of any resolution which places him, or any associate of his, in a position to receive remuneration out of the insolvent estate unless the proxy specifically directs him so to vote. (Rule 7.19(1)).
9. Unless the proxy contains a statement to the contrary the proxy-holder has a mandate to act as representative of the principal on the creditors' or liquidation committee. (Rule 4.48).

Notice of a meeting of creditors

Name of Company Heritable Bank Plc	Company number SC000717
In the Court of Session <small>[full name of court]</small>	Court case number P1684/08

(a) Insert full name(s) and address(es) of administrator(s) Notice is hereby given by (a) Alan Robert Bloom, Thomas Merchant Burton, Margaret Elizabeth Mills and Patrick Joseph Brazzill

Ernst & Young LLP, 1 More London Place, London, SE1 2AF

(b) Insert full name and address of registered office of the company that a meeting of the creditors of (b)

Heritable Bank Plc c/-

1 More London Place, London, SE1 2AF

(c) Insert details of place of meeting is to be held at (c) New Connaught Rooms, 61-65 Great Queen Street, Covent Garden, London WC2B 5DA

(d) Insert date and time of meeting on (d) 09 December 2008 at 13.00 pm

The meeting is:

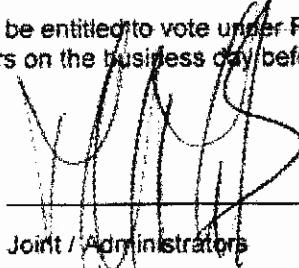
{1} an initial creditors' meeting under paragraph 51 of Schedule B1 to the Insolvency Act 1986 ("the Schedule");

I invite you to attend the above meeting.

A proxy form is enclosed which should be completed and returned to me by the date of the meeting if you cannot attend and wish to be represented.

In order to be entitled to vote under Rule 2.38 at the meeting you must give to me, not later than 12.00 hours on the business day before the day fixed for the meeting, details in writing of your claim.

Signed



Joint / Administrators

Dated

20 November 2008

A copy of the proposals is attached

Heritable Bank Plc

(In Administration)

**Administrators' Statement of Proposals
Pursuant to Paragraph 49 of Schedule B1 to the
Insolvency Act 1986**

20 November 2008

Abbreviations

The following abbreviations are used in this report:

Act	the Insolvency Act 1986
Administration	the administration of Heritable
Administrators	AR Bloom, TM Burton, ME Mills and PJ Brazzill of Ernst & Young LLP
BACS	Bank Automated Clearing System
Barclays	Barclays Bank Plc
BofE	Bank of England
CHAPS	Clearing House Automated Payment System
Deloitte	Deloitte & Touche LLP
DMH	Deposits Management (Heritable) Limited
EY	Ernst & Young LLP
First Order	The Heritable Bank plc Transfer of Certain Rights and Liabilities Order 2008
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
Group	Heritable Bank Plc Heritable Capital Partners Ltd Key Business Finance Corporation Plc Key Business Finance Ltd Heritable Asset Finance Ltd
HAF	Heritable Asset Finance Ltd (In Administration)
HCP	Heritable Capital Partners Ltd (In Administration)
Heritable	Heritable Bank Plc (In Administration)
HMT	Her Majesty's Treasury
HSBC	HSBC Bank Plc
ING	ING Direct N.V.
KBF	Key Business Finance Ltd (In Administration)
KBFC	Key Business Finance Corporation Plc (In Administration)

LBG	Landsbanki Guernsey Limited (In Administration)
LGA	Local Government Authority
LIHF	Landsbanki Islands Hf, the 100% parent company of Heritable Bank Plc
NBS	Newcastle Building Society
Overriding Objectives	Certain objectives set out in the First Order which override those in paragraph 3(1) of Schedule B1 to the Act for a period of six months
Proposals	The Administrators' proposals for achieving the purpose of the Administration
Rules	The Insolvency (Scotland) Rules 1986
Second Order	The Transfer of Rights and Liabilities to ING Order 2008
SIP	Statement of Insolvency Practice
Transfer Orders	the First Order and the Second Order, each made by HMT, in exercise of its powers under the Banking (Special Provisions) Act 2008
Transitional Period	the six-month period from 7 October 2008 to 7 April 2009 (inclusive)
TSA	Transitional Services Agreement

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1. Introduction, background and circumstances giving rise to the appointment

Introduction

On 7 October 2008 Heritable entered administration and AR Bloom, TM Burton, ME Mills and PJ Brazzill of Ernst & Young LLP, 1 More London Place, London, SE1 2AF, 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") on application of the FSA.

This report, including its appendices, constitutes the Administrators' statement of proposals to creditors pursuant to paragraph 49 of Schedule B1 to the Act and Rule 2.25 of the Insolvency (Scotland) Rules 1986 (the "Rules").

Certain statutory information relating to Heritable and the appointment of the Administrators is provided at Appendix A.

Pursuant to the Transfer Orders, for the period of six months commencing on the date of the Administration (7 October 2008) (the "Transitional Period"), the Administrators are obliged to perform their functions with the following objectives (the "Overriding Objectives"):

- a. ensuring that Heritable provides, and managing the affairs, business and property of Heritable to enable it to provide, the services and facilities reasonably required by ING to carry on its functions in relation to the transferred rights and liabilities; and
- b. ensuring that Heritable performs the other obligations imposed on it by or under the First Order.

Following the expiry of the Transitional Period and, to the extent that it is not inconsistent with the Overriding Objectives, during the Transitional Period, the Administrators are obliged to perform their functions with the objective determined in accordance with paragraph 3 of Schedule B1 to the Act. For these purposes, having concluded that it is not reasonably practicable to rescue Heritable as a going concern, the Administrators are required to pursue the objective of achieving a better result for Heritable's creditors as a whole than would be likely if Heritable were wound up (without first being in administration).

Creditors' meeting

A meeting of the creditors of Heritable has been convened for Tuesday 9 December 2008, at 13.00 to be held at The New Connaught Rooms, 61-65 Great Queen Street, Covent Garden, London WC2B 5DA, to enable creditors to consider the Administrators' proposals and decide whether a creditors' committee should be formed.

Further details are provided in the documents accompanying these proposals.

If approved by the requisite majority, the Administrators' proposals are binding on all creditors, including those not present or represented at the meeting. For this reason, it is important that you read this document carefully, properly considering the proposals and decide whether and how you wish to vote. A creditor is entitled to propose modifications to these proposals for consideration by the Administrators and creditors.

In preparing this report, the Administrators have relied on information provided by the directors, management and other third parties. The Administrators' investigations are continuing and accordingly, it has not been possible to verify all such information. Therefore,

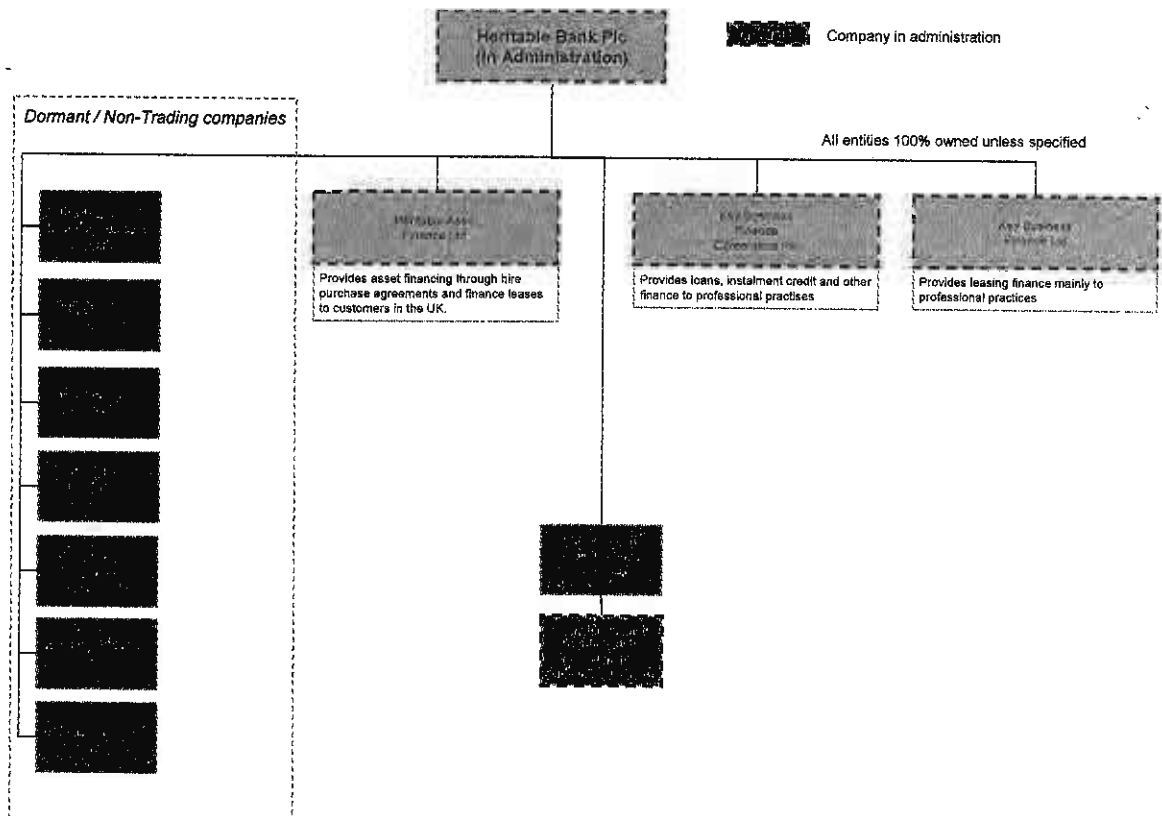
the Administrators take no responsibility for the completeness or accuracy of this information or otherwise.

Background

Heritable, incorporated in 1877, is a Scottish registered company and a 100% subsidiary of LIHF (an Icelandic company, whose shares are listed on the Icelandic stock exchange).

In 2000 LIHF acquired a 70% stake in Heritable which was increased to 95% in 2002. The residual 5% stake holding was eventually acquired by LIHF in 2003.

Heritable is itself the parent company of the Heritable group of companies. A summary Group structure is provided below.



The Group operated in the UK providing speciality finance and deposit taking. The specific books of business within the Group comprised:

Heritable lines of business

- ▶ Retail deposits: At the time of the Administration, Heritable operated a retail deposit book of approximately £540 million. Heritable savings products included both current accounts and term deposit accounts;
- ▶ Wholesale deposits: The wholesale (i.e. non-retail) deposit book of business was approximately £440 million and consisted largely of deposits from local government councils, police authorities and universities;
- ▶ Structured residential and commercial property development finance: At the time of the Administration, the structured property finance book was valued at approximately £600m of which 70% is drawn and comprised senior and mezzanine debt finance to property developers;

Introduction, background and circumstances giving rise to the appointment

- ▶ Residential mortgages: The residential mortgage book comprised a mix of buy to let, regulated and unregulated mortgages of approximately £690m;

Subsidiary lines of business

In addition, subsidiary companies of Heritable, operate the following businesses:

- ▶ Asset financing: The asset finance business is owned and operated by HAF. The size of the asset financing book of business was approximately £76 million and represented loans to small asset based finance and hire purchase loans; and
- ▶ Financing to professional practices: Loans to professional practices, largely legal firms, were provided by KBF and KBFC. The size of the loan book at the date of the Administration was approximately £50 million.

The subsidiary businesses have been funded by Heritable and as such Heritable is the largest creditor in respect of both HAF, KBF and KBFC.

Prior to the Administration, Heritable's registered office was located at 24 Great King Street, Edinburgh, EH3 6QN. Following the Administration, the registered office has since been amended to George House, 50 George St, Glasgow, Scotland, G2 1RR. Heritable continues to trade from leasehold premises located at;

- 1) 8 Hill Street, London, W1J 5NG
- 2) Clarges House, Clarges Street, London, W1J 8AD

The recent Group consolidated and Heritable financial results can be summarised as follows:

Year ended	Type	Turnover	Profit before tax	Directors' remuneration	Retained earnings
		£000	£000	£000	£000
Heritable Group Consolidated					
31 Dec 07	Audited	86,415	16,363	1,384	35,606
31 Dec 06	Audited	54,138	10,695	2,064	23,368

Source: Audited Accounts

* Turnover is represented by interest income, which excludes fee and commission income.

Circumstances giving rise to the appointment of the Administrators

In common with all deposit taking institutions, Heritable operated in a market that depends heavily on depositor and general market confidence. Developments in the banking sector of the economy in recent months created difficult trading conditions for deposit taking businesses. Additionally, the acute adverse market conditions and severe disruption in the world credit markets further contributed to the liquidity issues faced.

The Icelandic economy, in particular, suffered a number of difficulties which adversely affected Heritable's ultimate parent, LIHF. Heritable as an entity was dependant upon the ongoing support of LIHF. In the period immediately prior to the Administration, there was a loss of confidence and certainty in the Icelandic banking system including LIHF

On 7 October 2008, the FSA concluded that Heritable was failing to meet its threshold conditions under the Financial Services and Markets Act 2000 ("FSMA"). The FSA therefore exercised its power under section 45 of FSMA to vary Heritable's permissions under Part IV

of FSMA so as to prevent Heritable from accepting any deposits into any new or existing deposit accounts and found Heritable to be in default for the purposes of the FSCS. On the same day, the FSA applied to the Court of Session in Scotland for an administration order in respect of Heritable, which was granted by the Court of Session.

Also on 7 October 2008, HMT made the Heritable Bank plc Transfer of Certain Rights and Liabilities Order 2008 ("the First Order") pursuant to which Heritable's liabilities in respect of certain principal and accrued interest on certain of its deposit accounts at that time were transferred to DMH.

On 8 October 2008, HMT made the Transfer of Rights and Liabilities to ING Order 2008 ("the Second Order" and, together with the First Order, "the Transfer Orders"), pursuant to which the liabilities transferred under the First Order were transferred to ING.

Shortly after the appointment of Administrators to Heritable, the directors of the subsidiary companies, KBF, HCP, KBFC and HAF filed notices of appointment of an administrator (following, in the case of HCP, the issue to Heritable of a notice of intention to appoint an administrator) with the High Court of England & Wales as they concluded that the companies were unable to pay their debts as they fell due.

Consequently on 15 October 2008, AR Bloom and ME Mills were appointed as joint administrators of three of the four subsidiary companies, namely KBF, KBFC and HAF by the Directors pursuant to paragraph 22 of Schedule B1 of the Act.

On the same date, AR Bloom and TM Burton were appointed as joint administrators of HCP pursuant to paragraph 22 of Schedule B1 of the Act.

Separate proposals have been prepared for KBF and KBFC, HAF and HCP, and will be circulated to the creditors of these companies.

2. Purpose, conduct and end of Administration

2.1 Purpose of the Administration

AR Bloom, TM Burton, ME Mills and PJ Brazzill were appointed as Administrators to manage the affairs, business and property of Heritable. They will act until such time as the proposals for achieving the purpose of the Administration have been approved by creditors, implemented and achieved, following which the Administration will be ended.

In summary, the Transfer Orders effect a transfer of certain of the deposit liabilities of Heritable (defined as "the transferred liabilities" in the Transfer Orders) to ING.

The Transfer Orders provide that, during the Transitional Period, the Administrators must perform their functions in accordance with the Overriding Objectives, namely:

- a. ensuring that Heritable provides, and managing the affairs, business and property of Heritable to enable it to provide, the services and facilities reasonably required by ING to carry on its functions in relation to the transferred rights and liabilities; and
- b. ensuring that Heritable performs the other obligations imposed on it by or under the First Order.

Under the terms of the Transfer Orders, HMT can give directions to the Administrators (i) specifying that an act or omission is required for the Overriding Objectives or (ii) requiring them to act (or not act) if HMT considers that it is necessary for the purposes of (a) protecting or enhancing the stability of the financial systems of the UK, (b) protecting or enhancing public confidence in the stability of the banking system of the UK or (c) protecting depositors, and the Administrators are required to comply with such directions.

Following the expiry of the Transitional Period and, to the extent that it is not inconsistent with the Overriding Objectives, during the Transitional Period, the Administrators are obliged to perform their functions with the objective determined in accordance with paragraph 3 of Schedule B1 to the Act, namely:

- 3 (1)(a) rescuing the company as a going concern; or
- 3 (1)(b) achieving a better result for the creditors as a whole than would be likely if the companies were wound up (without first being in Administration); or
- 3 (1)(c) realising the property in order to make a distribution to one or more secured or preferential creditors.

The Administrators have concluded that it is not reasonably practicable to rescue Heritable as a going concern and are thus required to pursue the objective of achieving a better result for Heritable's creditors as a whole than would be likely if Heritable were wound up (without first being in administration).

The Administrators believe that it is reasonably likely that this objective, together with the Overriding Objectives, will be achieved.

2.2 Conduct of the Administration

2.2.1 Retail Deposit Book

At the date of the Administration, there were approximately 26,300 deposit holders with total deposits of approximately £540 million.

Deposit accounts transferred to ING

Customers with open deposit accounts listed below have been transferred to ING pursuant to the Transfer Orders.

- ▶ 1 Year Fixed Rate Bond;
- ▶ 2 Year Fixed Rate Bond;
- ▶ 3 Year Fixed Rate Bond;
- ▶ 4 Year Fixed Rate Bond;
- ▶ 5 Year Fixed Rate Bond;
- ▶ 50 Plus Saver;
- ▶ 60 Day Notice;
- ▶ 90 Day Notice;
- ▶ 120 Day Notice;
- ▶ Easy Access;
- ▶ Online Saver; and
- ▶ Direct Saver.

Any accounts that had not been opened at the time of the Second Order have not been transferred to ING. The FSCS are in the process of considering whether depositors who had submitted applications to open new accounts with Heritable have a right to claim compensation from the FSCS directly in respect of deposits accepted by Heritable but not already returned. Details of how to make a claim for FSCS compensation are included on the Heritable website, www.heritablesavings.co.uk.

Under the terms of the First Order, the FSCS and HMT assumed a liability to DMH in an aggregate amount equal to the deposit liabilities transferred to, and assumed by, DMH. Under the terms of the Second Order, DMH assumed a liability in the same amount to ING, following the transfer of those deposit liabilities to ING.

By virtue of the First Order, Heritable became liable to the FSCS in an amount equal to the amount which would have been provable in the Administration in respect of the liabilities transferred (ultimately) to ING had the First Order not been made and had Heritable been placed into administration immediately before the First Order came into force.

A TSA was entered into on 8 October 2008 between HMT and ING in respect of ongoing services to be provided by Heritable whilst certain services relevant to the transferred deposit accounts are fully migrated across to ING and in order to facilitate the achievement of the Overriding Objectives.

By virtue of the Second Order, the TSA binds Heritable as if it were a party thereto. Pursuant to the TSA, ING is liable to reimburse Heritable for its reasonably incurred direct costs in providing the services under the TSA to ING. The Administrators are in discussions with ING in relation to the costing principles, basis of allocation and payment process.

The management of the transferred deposit book is operated on behalf of Heritable by NBS. The clearing bank in respect of that deposit book is operated by Barclays ("the Barclays Account"). Following the Administration, the normal operation of the Barclays Account was disrupted. The Administrators, working with ING, Barclays and NBS have since established arrangements to allow depositors to make withdrawals and deposit funds as ING customers. Heritable continues to operate the NBS and Barclays contracts on behalf of ING until such time as the migration of that deposit book infrastructure has been concluded in accordance with the TSA.

Potential Trust Claims

The Administrators are presently investigating the extent to which sums received by Heritable prior to the Administration and funds held in certain bank accounts may be subject to trust claims.

These investigations are continuing and, in the event that the Administrators conclude that such receipts or funds are subject to valid trust claims, they will write to the parties affected.

In-house Retail Deposit Accounts

In addition to the saving products transferred to ING, Heritable operated 136 retail deposit accounts (i.e. deposit accounts of, for the most part, individuals) which were not managed than through NBS and the Barclays Account. These accounts relate to historic saving products. These accounts are outside of the Transfer Orders and have not been transferred to ING. Customers with deposits in these products have the right to make an application for compensation from the FSCS. The FSCS has now been provided with all relevant data relating to these customers and will contact them directly in due course.

Icesave Retail Deposit Accounts

For the avoidance of doubt, ICESAVE deposit accounts are accounts with LIHF (acting through its London branch) and not Heritable or its subsidiaries. As such, the Administrators have no involvement with such accounts and their treatment is being dealt with separately by the FSCS. Any queries in relation to ICESAVE should be directed to their website, www.icesave.co.uk.

2.2.2 Wholesale Deposit Book

As a consequence of the Administration, wholesale deposits (i.e. non-retail fixed term deposits placed through money market brokers) at the date of the Administration have been frozen and represent unsecured claims in the Administration. Wholesale depositors largely comprise local government councils and universities. There are 103 creditors in this category with an estimated exposure of approximately £408m.

The Administrators have been approached by the LGA to maintain fortnightly communication updates with an informal steering committee of certain local authorities. This steering committee represents a wider group of public authority depositors and is headed by the LGA.

The Administrators have held certain discussions to date with the steering committee and provided them with updates as to the progress of the administration without assuming any obligation to do so or liability in respect of information provided.

2.2.3 Intercompany Claims

The balance sheet received by the Administrators' on their appointment included various inter company balances. On the Asset side, Heritable's records reflect loans due to be received from HAF £76m, HCP £29m and KBF £59m.

On the liabilities side, the records indicated that Heritable owed LBG £38.8m, KBFC £7.6m and further parental loans of £61m.

It is believed that these parental loans comprise the balance drawn down as at 30 September 2008 under a £400m facility agreement granted to Heritable by LIHF. As at the date on which the Administrators were appointed, the records of Heritable indicate this amount to be £84m, though the Directors have represented within the Statement of Affairs that the balance as at that date was £86m (made up of an estimated £81m GBP and approximately €6m). The Directors also believe that LIHF's claim under the facility agreement in respect of this sum may have subordinated debt status, ranking behind other unsecured creditor claims.

The Administrators are still in the process of reviewing Heritable's records to ascertain the amount and ranking of this indebtedness.

In addition to the above, Heritable also entered into a subordinated loan agreement with LIHF on 13 August 2001 for the provision of a £40m facility. This facility was most recently increased to £60m on 19 December 2006 and is reflected in the Management and Audited accounts at that full facility level. The Directors have reflected this subordinated debt within the Statement of Affairs at its current drawn down level of £50m.

2.2.4 Other Creditors

The Administrators notified all other known creditors, including trade suppliers, shortly after the appointment to advise them of the Administration and to submit claims to the Administrators. The claims of these creditors will rank equally with (non transferred) depositors and the FSCS.

2.3 Asset Realisation Strategy

Pursuant to the terms of the Transfer Orders, the Administrators shall not enter into a transaction or a series of transactions (whether related or not) to sell, lease, transfer or otherwise dispose of any property or right of Heritable having a value more than £50m at any time unless –

- a) the court orders otherwise;
- b) HMT gives its consent to the transaction; or
- c) the sale, lease, transfer or disposal has been specifically approved at a meeting of creditors summoned under paragraph 51(1), 54(2) or 62 of Schedule B1 to the Act or by a creditors' committee constituted in accordance with Rule 2.50 of the Insolvency Rules 1986 or any analogous provision of the Rules.

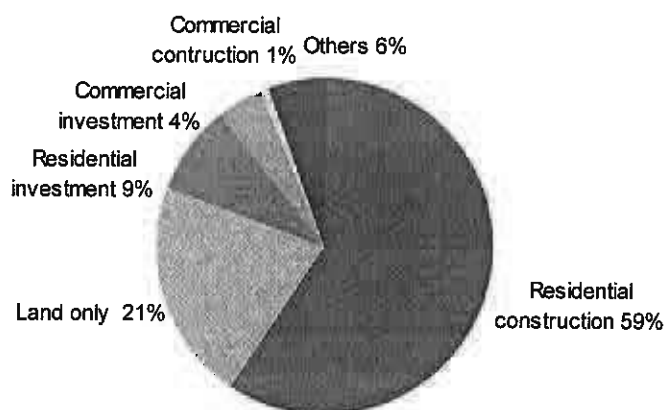
2.3.1 Structured Property Finance ("SPF")

The SPF business (a division of Heritable) manages a loan book of circa £600m of which approximately 70% is drawn commitments and 30% undrawn commitments.

The loan book comprises direct loans from Heritable plus sub participation positions managed by Heritable on behalf of LIHF and loans it sold in whole and in part, although still manages, on behalf of a sister company, LBG.

The book comprises 269 loans to 120 borrowers, the majority of whom are long standing and repeat customers of Heritable.

An analysis of the loan book composition can be seen below.



Source: Management Accounts

Residential development and investment (68% of commitments): the Business has provided senior debt for new build, conversions, refurbishments, as well as completed investment stock. Borrowers are typically small scale developers/contractors.

Commercial development and investment (5% of commitments): the Business has provided senior debt for developers with established track records for new build (speculative and pre-let) developments and for income producing investments. Financing has been provided for medium term funding secured against income producing investments.

Land only facilities (21% of commitments): facilities have been provided to experienced property developers to fund the purchase and assembly of sites.

Geographical spread

Located primarily in London and the South and Southeast. Three loans representing less than 1% of commitments are to borrowers for non-UK properties (Germany and Ireland).

The average loan size of the book is circa £1.75m with an average loan term of 18 months. The customer base is generally small experienced residential property developers. Although on average the loan size is relatively small, since Heritable's acquisition by LIHF, there had been a drive to increase its transaction sizes. The book therefore now contains a number of larger loans, two of which total in excess of £50m.

Since their appointment, the Administrators have focused on three objectives with regard to the book: (i) short-term stabilisation, (ii) maximising the value of recoveries under the loans through run-off or acceleration and (iii) considering the benefits of a sale of the book or certain loans therein.

A stabilisation programme for the loan book has been implemented in order to prevent value erosion. A review of the loan book on a loan by loan basis was undertaken within the first four weeks to assess the level and strength of Heritable's security.

In undertaking this review it was recognised that to prevent rapid deterioration in the value of the loan book, Heritable would need to meet some of its existing commitments to borrowers. With many of the borrowers being small developers, failure to meet commitments would lead to contractors not being paid and potentially walking off sites. In most instances, a part completed development site will be difficult to dispose of and will trade at a significant discount to its value as a completed project.

A detailed review of SPF's cash flow projections for its loan book was undertaken which identified a short term funding gap that could not be met from existing resources.

To preserve and realize value for creditors the Administrators have raised short term funds to meet the immediate SPF cash flow requirement.

With funds available, the Administrators have begun to meet requests for committed funds where expenditure helps to preserve the value of the loan book and the security in respect of such loans (mainly to complete residential developments). Heritable's weekly credit committee meetings have been re-introduced to review potential drawdown requests and amend existing loans (including, where appropriate, approving new loans). To date, the Administrators have applied drawdowns of circa £4m of previously committed funds and have received inflows of circa £3.3m.

In circumstances where it has not been possible to continue lending the Administrators are progressing with a series of meetings and discussions with those affected customers with the aim of encouraging them to refinance or repay existing commitments.

In parallel with the strategy of managing the orderly run off of the loan book the Administrators are also preparing the loan book to be marketed for sale.

An Information Memorandum has been prepared and issued to potential purchasers who have signed non disclosure agreements. Discussions with the potential purchasers are continuing to be held. For this reason, certain financial information that would normally be provided within this report has not been included so as to avoid jeopardising the value of any future offers for this book.

Guernsey Loan Book

Prior to the Administration, part of the SPF loan book was sold to LBG (which is now in administration in Guernsey). However, following the sale, in accordance with the relevant agreements between the parties, Heritable retained (and has continued to exercise) the rights to manage and administer the relevant loans. Further, it still has interests either directly or through borrower groups in a significant number of such loans.

Discussions with LBG's administrators', partners at Deloitte, have been undertaken and strategies agreed for the recovery of funds on each of the 27 loans.

Short Term Loan Book

In addition to the existing SPF loan book, part of the residential mortgage book has been transferred to the SPF business. The assets transferred are mainly residential developments which are similar to the SPF book and where the skills needed to manage these are available.

The Administrators have reviewed this portfolio and are now managing the drawdown requests in a similar manner to the existing SPF book. This loan book also forms part of the sale process identified above

Heritable Capital Partners Limited (in Administration) ("HCP")

HCP, a 100% subsidiary company makes equity investments in real estate projects. It has invested equity into a number of joint ventures where Heritable has lent debt to the project.

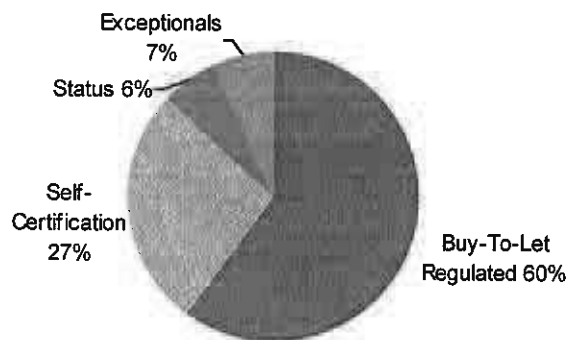
In the first four weeks since the Administration, the Administrators have reviewed HCP's exposure to its major projects and met with its joint venture partners. Plans and negotiations are ongoing to minimise HCP's exposure and maximise its equity returns.

HCP's investments tend to be in large complicated joint venture developments that will take considerable time to unwind. Work is therefore ongoing.

Residential mortgages

Since the Administration no new mortgages have been granted. Instead it has been the intention of the administrators to collect-out the mortgage book in an orderly fashion whilst possible buyers for the business are sought.

The composition of the residential mortgage book can be seen below;



Source: Management Accounts

The majority of the book relates to Buy-To-Let mortgages. It is common for such mortgages to be on an interest only basis and in fact 94% of the entire book is currently being repaid on an interest only basis. The 7% referred to as "Exceptionals" are generally large or complex loans or loan portfolios that do not readily sit within the other categories listed.

Geographically, the residential mortgage book can be split in to 12 regions although 77% by value and 67% by number are within the Greater London and Southeast areas. Mortgages have been sold through a network of intermediaries, and since its inception in 2003, Heritable has sought to differentiate its mortgage services by providing a flexible bespoke underwriting service which assesses applications on a case by case basis.

As at the end of September, approximately 11% of the book was in arrears and had experienced an increase in the rate of default, however these figures are inflated by virtue of the arrears position on the Exceptional cases. The Buy-to-Let, Self Certification and Status books are just 9%, 5% and 8% in arrears respectively.

The administrators, working with management have been reviewing the market trend of reducing standard variable interest rates ("SVR") on mortgage products and considering the impact of interest rates upon the credit quality and default rate of the customer base.

Following the Bank of England's reduction of the base rate by 1.5% to 3% on 9 November 2008, Heritable announced on 12 November 2008 that it will be passing on a 1.5% reduction in its SVR to its existing customers reducing the SVR from 7.24% to 5.74%. It is felt that this decision will help to maintain the credit quality of the mortgage book and help guard against default.

Subsidiary interests

As discussed above, the Heritable group operates asset finance and professional financing books of business through its subsidiary companies; HAF and KBF/ KBFC respectively. Both subsidiaries have been financed by Heritable and as such represent both an inter-company debtor as well as a 100% equity interest.

Market interest for the professional finance business operated by KBF / KBFC has been low. As such the KBF administrators have determined that the optimum strategy is to continue an orderly run off of the book. On this basis no new loans are being advanced and customer repayments are being collected out.

A sales process has been commenced in respect of the asset finance business operated by HAF, and discussions are being progressed with interested parties to explore the value that can be achieved. In the interim no new loans are being advanced and the book is being managed closely to collect repayments and preserve asset quality.

Other matters concerning the conduct of the Administration

Landsbanki Creditor Guarantee

Pursuant to an agreement dated 19 January 2004 between LIHF and Heritable (the "2004 Guarantee") (a copy of which is appended hereto as Appendix G), LIHF provided a guarantee and indemnity in respect of all monies and liabilities due, owing or incurred by Heritable to Heritable's creditors (provided that, in respect of debts owed by Heritable to suppliers of goods and services, the relevant amounts exceed £30,000) and agreed to pay creditors on demand all monies due from time to time. Though the LIHF has a right to terminate the 2004 Guarantee on the provision of three months' notice to Heritable, the Administrators are not aware of LIHF having exercised this right to date.

In addition, pursuant to a deed executed by LIHF dated 30 June 2003 (the "2003 Guarantee" and together with the 2004 Guarantee, the "Guarantees"), LIHF separately undertook to guarantee the full and prompt payment or discharge by Heritable of all liabilities of Heritable to any person howsoever arising including but not limited to liabilities to its depositors. The Administrators are investigating whether the 2003 Guarantee remains in force and/or is enforceable by creditors.

The Administrators have held preliminary discussions with the LIHF resolution committee concerning the Guarantees in order to draw the Guarantees, and the position of Heritable's creditors, to the attention of LIHF.

On 13 November 2008, certain statutory amendments were made to the Icelandic Act No 161/2002 on Financial Undertakings. These and any other changes to Icelandic law could affect the procedures applicable to the submission of claims under the Guarantees against LIHF and/or creditors' ability to enforce such claims.

The LIHF resolution committee is presently considering the appropriate process for the efficient submission and administration of claims under the Guarantees. It is likely that Heritable and the Administrators will be asked to assist LIHF in processing and reviewing such claims. Any such assistance will be provided only on the basis that Heritable and the Administrators accept no liability to creditors or LIHF in respect of the provision of any such assistance.

Discussions are continuing between the parties in respect of the Guarantees and claims administration process and the Administrators or LIHF will contact creditors to explain the process further in due course.

Heritable and the Administrators accept no responsibility for, and no liability in respect of, the exercise by the creditors of their rights under or in connection with the Guarantees and recommend that creditors take their own legal advice in this regard.

Customer Collections

Heritable operated several general clearing bank accounts with HSBC. All accounts were frozen upon Heritable entering administration.

The Administrators' ability to access pre-appointment funds has been delayed as a result of the sponsor bank, HSBC, ceasing to operate the accounts. In addition this prevents Heritable from being able to collect customer payments by direct debits. This is a material issue for both the Administration and customers and the administrators are exploring options to resolve this situation.

The Administrators are in continual dialogue with HSBC in order to recommence this service.

Employees

At the date of the Administration, Heritable employed 123 staff. Prior to the Administrators' appointment, 12 staff within the residential mortgage service line had been identified for redundancy by management. These redundancies were implemented on 17 October 2008. In addition 7 staff have since resigned voluntarily.

Following an initial review of the business, a decision was taken to make redundant a further 33 employees with effect from 31 October 2008 as a result of the cessation of deposit and new loan activities. It is now envisaged that there will be no further redundancies for 3 months from 31 October 2008.

Dividend prospects

The Administrators consider that there will be a material dividend payable in due course for unsecured creditors. However, because of the significant uncertainties discussed above, it is too early to provide a realistic estimate as to quantum or timing at this time.

Future conduct of the Administration

During the Transitional Period, it is proposed that the Administrators will continue to manage the affairs, business and property of Heritable in order to achieve the Overriding Objectives.

Thereafter and, to the extent not inconsistent with the Overriding Objectives, during the Transitional Period, the Administrators shall continue to manage the affairs, business and property of Heritable with the purpose of achieving a better result for Heritable's creditors as a whole than if Heritable were wound up (without first being in administration).

The Administrators' actions will include, inter alia:

- ▶ continuing and concluding the migration of services relating to transferred retail accounts to ING;
- ▶ reviewing outstanding matters and obligations in respect of Heritable's remaining assets and continuing to seek purchasers for the portfolios of assets;
- ▶ to the extent that their sale is not possible or not considered to be in the interests of creditors, conducting an orderly realisation and recovery of such assets;

Purpose, conduct and end of administration

- ▶ reviewing the tax affairs of Heritable;
- ▶ reviewing matters in relation to any potential claims that Heritable may have against any party/parties;
- ▶ conducting the statutory investigation into the conduct of the directors and management of Heritable and reporting to the Department of Business, Enterprise and Regulatory Reform pursuant to the Company Directors' Disqualification Act 1986;
- ▶ dealing with unsecured creditor claims as necessary;
- ▶ collating claims for submission to LIHF under the terms of the Landsbanki Guarantee;
- ▶ dealing with statutory reporting and compliance obligations;
- ▶ finalising the Administration including the payment of Administration liabilities;
- ▶ utilising the provisions available under Schedule B1 to the Act

The Administrators may propose, subject to the permission of the court, to make a distribution to unsecured creditors during the course of the Administration, however this is yet to be confirmed.

The end of the Administration

Please see section 3 'Administrators proposals for achieving the purposes of the Administration', for details of the proposed exit route strategies.

3. The Administrators' proposals for achieving the purposes of the Administration

In accordance with paragraph 49 of Schedule B1 to the Act, AR Bloom, ME Mills, PJ Brazzill and TM Burton the Administrators of Heritable, make the following proposals for achieving the purpose of the Administration.

The Administrators are not required to include any proposals for achieving the Overriding Objectives in this statement of proposals or to obtain approval of such proposals at any creditors' meeting or from the court. The Administrators will only, during the Transitional Period, give effect to and act in accordance with the proposals set out below if and to the extent that they are not inconsistent with the requirements of the Transfer Order and the Overriding Objectives. During the Transitional Period, the Administrators are required to give priority to and perform their functions in order to achieve the Overriding Objectives.

The Administrators propose that they:

- a. continue to manage and finance Heritable's business, affairs and property from asset realisations in such manner as they consider to be expedient with a view to achieving a better result for Heritable's creditors as a whole than would be likely if Heritable were wound up (without first being in Administration)
- b. should do all such other things and generally exercise all of their powers as Administrators, as they in their discretion consider desirable or expedient, in order to achieve the purposes of the Administration or to protect and preserve the assets of Heritable or to maximise realisations of those assets, or for any other purpose incidental to these proposals
- c. identify and deal in an appropriate manner with any property subject to a trust or any proprietary rights and which remains in the control of Heritable
- d. investigate and, if thought appropriate, pursue any claims that Heritable may have against any person or entity including, without limitation, officers and former officers of Heritable
- e. continue to deal with statutory reporting and compliance obligations
- f. invite the creditors to consider establishing and, if thought fit, establish a creditors' committee to exercise the functions conferred by or under the Act for Heritable
- g. continue the Administration for such period as necessary to achieve the purposes of the Administration and, if necessary, make applications to the court to extend the term of the Administration beyond the one year statutory term
- h. in due course, be discharged from liability pursuant to paragraph 98(1) Schedule B1 to the Act in respect of any action of theirs as Administrators at a time determined by the court
- i. consult with the creditors' committee, if established, at appropriate intervals concerning the conduct of the Administration and the implementation and development of these proposals and the approval of the Administrators' remuneration
- j. have their remuneration fixed by reference to the time properly spent by them and their staff on matters arising in the Administration

- k. may at their discretion make an application to court for permission to make distributions to unsecured creditors under paragraph 65(3) of Schedule B1 to the Act
- l. continue to liaise with the LHIF resolution committee or other representatives of LHIF in relation to the Guarantee and the submission of claims thereunder
- m. use any of the "exit route" strategies available to them in order to bring the Administration to an end. In this instance, these could include the following:
 - (i) the Administrators may formulate proposals for a scheme of arrangement under section 899 of the Companies Act 2006 and if so ordered by the court will put them to meetings of the various classes of creditors; or
 - (ii) the Administrators may place Heritable into creditors' voluntary liquidation. In these circumstances, it is proposed that ME Mills, AR Bloom, PJ Brazzill and TM Burton be appointed as joint liquidators and any act required or authorised to be done by the joint liquidators may be done by either any or all of them. In accordance with paragraph 83(7) Schedule B1 to the Act and Rule 2.47(3) of the Rules, creditors may nominate alternative liquidators, provided that the nomination is made after the receipt of these proposals and before they are approved; or

It is too early to determine whether the Administrators will be in a position to make an interim distribution to creditors whilst in Administration. The Administrators' may only choose to make a distribution to secured or preferential creditors or, with the permission of the Court of Session, to unsecured creditors in the Administration. These distributions may only be made where the Administrators do not intend to give notice pursuant to paragraph 83 of Schedule B1 of the Act to move the Heritable from administration to a creditors' voluntary liquidation (CVL).

(iii) the Administrators may formulate a proposal for a company voluntary arrangement ("CVA") and put it to meetings of Heritable's creditors and shareholders for approval.

Voting

The creditors will be asked to vote upon the following matters at the initial meeting of creditors (in person or by proxy):

- ▶ The approval of the Administrators' proposals for achieving the purpose of Administration (as modified, as applicable); and
- ▶ The formation of a creditors' committee.

4. Statement of Affairs

On 12 November 2008 and 14 November 2008 the Heritable Directors submitted their Statements of Affairs as at 7 October 2008 to the Administrators. The Statements of Affairs received on 14 November 2008 related to those received from the Icelandic based directors although they were all signed on the same date as the UK directors.

The Administrators believe that it would prejudice the conduct of the administration of Heritable to make full disclosure of the Statement of Affairs in view of the fact that a substantial quantity of Heritable's assets have yet to be realised. The Administrators further believe it would therefore not be in the interests of creditors to disclose the Directors' estimate of future realisations. The Administrators are also of the view that it would be inappropriate to disclose details relating to certain creditors of Heritable.

Consequently, an order is being sought from the Court of Session on 20 November 2008 under Rule 2.22(1) of the Rules, limiting disclosure of the contents of the Statement of Affairs.

In the absence of full disclosure of the Statement of Affairs, the Rules stipulate (Rule 2.25(1)(g)) that the Administrators must provide the following information:

- ▶ The Statement of Affairs was prepared and sworn by the directors on 11 November 2008.
- ▶ The Administrators submitted their application for an order of limited disclosure to the Court of Session on 19 November 2008. The Administrators anticipate that the Court of Session will consider this application on 20 November 2008.
- ▶ A summary of the details contained in the Statement of Affairs that will not be subject to the limited disclosure order being sought from the Court of Session is set out below and at Appendix B of this Statement of Proposals.

If a full Statement of Affairs is not provided, the Rules also stipulate (Rule 2.25(1)(h)) that the names and addresses of the creditors, and details of the debts owed to, and security held by, each of them should be included.

For the purposes of the Statement of Proposals, it is not intended to disclose these details in full on the basis that the application that is being made to the Court of Session pursuant to Rule 2.22(1) of the Rules seeks to limit disclosure of part of this information.

However, a consolidated draft balance sheet (unaudited) as at the date of appointment of the Administrators has been included within Appendix B. In addition, we provide below, by way of summary information, an indication of the current position with regard to creditors' claims.

The figures have been compiled by Company's management and have not been subject to independent review or statutory audit.

Secured creditors

There are no secured creditors.

Preferential creditors

The amount of preferential claims is summarised below, however we advise that this amount is yet to be verified and formally claimed for by employees and as such, should be used as an estimate only.

Unpaid Wages as at 7 October 2008:	£ Nil
Unpaid Leave as at 7 October 2008	£ 99,170
Pension Entitlements as at 7 October 2008	£ Nil

Non-preferential creditors

These creditor claims continue to be submitted.

The total non-preferential claims have been advised by the Directors within the Statement of Affairs to be £1,098,235,520. An analysis of the composition of these claims can be seen in the below table;

Table 2: Heritable

Estimated Claims as at 7 October 2008

	As per Statement of Affairs
Trade Creditors	£1,010,357,359
Contingent Creditors	£ 1,787,622
Revolving Facility with Parent Company	£ 86,090,539
TOTAL	£1,098,235, 520

In addition to the above 'Unsecured Creditors' the Directors have included within the Statement of Affairs an amount of £50m in respect of the subordinated loan from LIHF, as discussed above in Section 2.2.3. This amount is subordinated to, and ranks behind, other unsecured creditors' claims in terms of priority of payment in the distribution process.

In relation to the intercompany indebtedness between Heritable and its sister company, LBG, there is approximately £38m owed by Heritable to LBG which has been recorded within the wholesale deposit creditor balances in the Statement of Affairs.

5. Prescribed part

The prescribed part is a proportion of floating charge assets set aside for unsecured creditors pursuant to section 176A of the Act. The prescribed part applies to floating charges created on or after 15 September 2003.

There are no floating charges granted by Heritable. As such, the prescribed part does not apply to Heritable.

6. Administrators' remuneration and disbursements

Remuneration

The statutory provisions relating to remuneration are set out in Rule 2.39 of the Rules. Further information is given in the Association of Business Recovery Professionals' publication *A Creditors' Guide to Administrators' Fees*, a copy of which is enclosed as Appendix E to this statement of proposals.

It is likely that a creditors' committee will be formed in the Administration, in which case the Administrators will ask the committee to determine the basis of the Administrators' remuneration and will consult and agree with the committee, from time to time, on the quantum to be drawn.

The Administrators will be requesting payment on a monthly basis of 80% of time charged as agreed by the creditors' committee in accordance with Rule 2.39(2) of the Rules. The residual 20% per month to be agreed by subsequent resolution of the committee.

Details of the Administrators' time costs and charge out rates will be provided to the committee as the approving body. Details of amounts drawn will be provided to creditors in progress reports.

In the event that a creditors' committee is not formed, the Administrators will conduct a creditors' meeting by correspondence and will provide the appropriate information to creditors with an invitation to vote.

At Appendix C is a statement on the Administrators' charging policy.

Disbursements

Appendix C also includes a statement of the Administrators' policy for charging disbursements.

Other professionals

The Administrators have engaged Freshfields Bruckhaus Deringer LLP, Denton Wilde Sapte LLP, Shepherd and Wedderburn LLP and Landslög to provide legal services, King Sturge Ltd to advise on the management, valuation and realisations of Heritable's chattels and other assets, and other advisors in respect of other matters pertaining to the Administration.

7. Other matters

Administrators' receipts and payments

The Administrators' Receipts and Payments Account for the period 7 October 2008 to 19 November 2008 for Heritable is attached in Appendix D.

Appendix A: Statutory information

Company Name: Heritable Bank Plc (In Administration)
 Registered Office Address: George House, Glasgow, Lanarkshire, G2 1RR,
 Registered Number: SC000717
 Trading Address(es): 8 Hill Street, London, W1J 5NG

Details of the Administrators and of their appointment

Administrators: AR Bloom, ME Mills, P Brazzill, T Burton
 Date of Appointment: 7 October 2008
 By Whom Appointed: Court of Sessions
 Court Reference: P1684/08

Share capital

Class	Authorised £	Issued and fully paid £
Ordinary £1 shares	£14,000,000	£14,000,000

Directors and secretaries

Name	Director or secretary	Date appointed	Date resigned
David Richard Bull	Secretary	31/03/2006	N/A
Nicholas Peter Barrett	Director	23/03/2001	N/A
Kjartan Gunnarsson	Director	23/03/2001	N/A
Brynjolfur Helgason	Director	27/02/2004	N/A
Ketan Jayantilal Malde	Director	01/10/2002	N/A
Mark Timothy John Sismey Durrant	Director	06/09/2002	N/A
Sigurjon Arnason	Director	06/09/00	09/10/08
Halldor Kristjansson	Director	06/12/00	09/10/08
Martin Young	Director	Pre 1998	12/11/08

Statement concerning the EC Regulation

The EC Council Regulation on Insolvency Proceedings does not apply to this Administration as Heritable is a credit institution.

Appendix B: Directors' statement of affairs

A summary of the Statement of Affairs has been included within Section 4 of this report.

The Administrators believe that full disclosure of the Statement of Affairs would prejudice the conduct of the Administration, in that the disclosure of the estimated values of loan books which might be subject to a sale process could prejudice the bidding process and reduce ultimate realisations. The Administrators are also of the view that it would be inappropriate to disclose details relating to certain creditors of Heritable.

On 19 November 2008 the Administrators made an application to the Court of Session for an order of limited disclosure in respect of the Statement of Affairs. Accordingly, the Administrators have omitted certain information from the summary of the Statement of Affairs included in this report in anticipation that the Court of Session will make the order that the Administrators have requested.

However, a consolidated draft balance sheet (unaudited) as at the date of appointment of the Administrators has been included below.

Consolidated draft and unaudited balance sheet as at 30 September 2008

Assets	£'000	Liabilities	£'000
Fixed Assets	1,365	Capital and reserves	
		Ordinary Share Capital	22,509
Intangible Assets		Share Premium	21,500
Goodwill	5,544	Revenue Reserves	35,606
Other Intangible Assets	1,312	Current Year (profit) / Loss	2,370
	6,856	TOTAL CAPITAL AND RESERVES	81,895
Current Assets			
Balances with Banks	5,984	Subordinated Debt	50,000
Principal Positions	515		
SPF Advances	372,404	Liabilities	
Residential Mortgages	680,031	Parental funding	61,038
Key Business Finance	59,042	Landsbanki Guernsey	38,797
Asset Finance	76,066	External Funding (KBFC)	7,664
Treasury & Corporate Centre	(259)	Wholesale Deposits	435,016
Heritable Capital Partners	29,066	Retail deposits	541,554
Derivative Financial Instruments	6,934	Others creditors and accruals	28,725
Other assets	6,777		
	1,236,559		
TOTAL ASSETS	1,244,780	TOTAL LIABILITIES	1,244,780

Source: Unaudited management information

Appendix C: Statement on administrators' remuneration pursuant to statement of insolvency practice No. 9 (Scotland)

Charging and disbursement policy

Administrator's charging policy for fees

The Administrators have engaged a manager and other staff to work on the Administration. 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 diaries. 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 time code established for the 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 below, as are the current hourly rates used. The current hourly rates are higher than the average rates, since hourly rates have increased over the period covered by this fee request.

The statutory provisions relating to remuneration are set out in Rule 2.39 of the Rules. Further information is given in the Association of Business Recovery Professionals' publication *A Creditors' Guide to Administrators' Fees*, a copy of which is enclosed as Appendix E to this statement of proposals.

It is likely that a creditors' committee will be formed in the Administration, in which case the Administrators will ask the committee to determine the basis of the Administrators' remuneration and will consult and agree with the committee, from time to time, on the quantum to be drawn.

The Administrators will be requesting payment on a monthly basis of 80% of time charged as agreed by the creditors' committee in accordance with Rule 2.39(2) of the Rules. The residual 20% per month to be agreed by subsequent resolution of the committee.

Details of the Administrators' time costs and charge out rates will be provided to the committee as the approving body. Details of amounts drawn will be provided to creditors in progress reports.

In the event that a creditors' committee is not formed, the Administrators will conduct a creditors' meeting by correspondence and will provide the appropriate information to creditors with an invitation to vote.

Administrators' charging policy for disbursements

Statement of insolvency practice No. 9 divides disbursements into two categories.

Category 1 disbursements are defined as specific expenditure relating to the Administration of the insolvent's affairs and referable to payment to an independent third party. Such disbursements can be paid from the insolvent's assets without approval from the Creditors' Committee or the general body of creditors. In line with Statement of Insolvency Practice No. 9 (Scotland), it is our policy to disclose Category 1 disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as may reasonably be required to support the disbursements drawn.

Details of the Administrators' disbursements will be provided to the committee as the approving body. Details of amounts drawn will be provided to creditors in progress reports.

In the event that a creditors' committee is not formed, the Administrators will conduct a creditors' meeting by correspondence and will provide the appropriate information to creditors with an invitation to vote.

Category 2 disbursements are charges made by the office holder's firm that include elements of shared or overhead costs. Statement of Insolvency Practice No. 9 (Scotland) provides that such disbursements are subject to approval as if they were remuneration.

There are no Category 2 disbursements at this time.

Appendix D: Administrators' receipts and payments account for the period from 7 October 2008 to 19 November 2008

Estimated to
Realise as per
Directors'
Statement of
Affairs

N/A	RECEIPTS	£
	SPF Interest	622,548
	Mortgage Receipts	412,818
	Sundry	1,056,343
	Mortgage Redemptions	8,053,495
	SPF Drawdown Facility	19,000,000
	SPF Plot Sales	1,949,000
	SPF Capital Reduction	205,500
	RM Servicing	1,721
	Bank Interest	8,256
	Finance	113,995
		<hr/>
		31,423,676
	PAYMENTS	
	Direct Labour	10,476
	Pension	73,854
	Net Wages	340,832
	Res Mtg Professional Costs	1,086
	Scottish Lodgement Fees	15
	Refund of Overpayment	1,851
	Employee Expenses	9,293
	Bank of England Facility Fee	849
	Legal Fees	540,172
	SPF – Legal	34,851
	Purchase Orders	13,504
	Public Notices	370

SPF - Drawdowns	4,218,239
RML - Drawdowns	65,939
Ransom Trade Supplies	120,270
Ransom Legals	43,768
Petty Cash	2,000
Bank Charges	599
PAYE	180,645
VAT Receivable	127,186
	5,785,799
Balance as per Banks –	
- Bank of England	65,957
- Royal Bank of Scotland	24,269,824
- HSBC Current Account	1,302,095
	31,423,675

Note: Please note that as the Administrators believe that it would prejudice the conduct of the administration of Heritable to make full disclosure of the Statement of Affairs in view of the fact that a substantial quantity of Heritable's assets have yet to be realised, Statement of Affairs figures that would normally be shown against the receipts and payments have not been included at this time.

Appendix E: A Creditors' guide to Administrators' Fees (Scotland)

A CREDITORS' GUIDE TO ADMINISTRATORS' REMUNERATION SCOTLAND

This guide applies to all appointments on or after 15 September 2003. Any creditor requiring guidance on a case where the Insolvency Practitioner was appointed prior to 15 September 2003 should refer to the previous guide, which should have been issued to all creditors at the time of appointment.

1 Introduction

- 1.1 When a company goes into administration the costs of the proceedings are paid out of the company's assets in priority to creditors' claims. The creditors, who hope to recover some of their debts out of the assets, therefore have a direct interest in the level of costs, and in particular the remuneration of the insolvency practitioner appointed to act as administrator. The insolvency legislation recognises this interest by providing mechanisms for creditors to determine the basis of the administrator's remuneration. This guide is intended to help creditors be aware of their rights under the legislation to approve and monitor remuneration and outlays and explain the basis on which remuneration and outlays are fixed.

2 The Nature of Administration

- 2.1 Administration is a procedure which places a company under the control of an insolvency practitioner and the protection of the court with the objective of:
- (a) rescuing the company as a going concern, or
 - (b) achieving a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration) , or
 - (c) realising property in order to make a distribution to one or more secured or preferential creditors

Administration may be followed by a company voluntary arrangement or liquidation.

3 The Creditors' Committee

- 3.1 The creditors have the right to appoint a committee with a minimum of 3 and a maximum of 5 members. One of the functions of the committee is to determine the basis of the administrator's remuneration. The committee is established at the meeting of creditors which the administrator is required to hold within 10 weeks of the administration order (or longer with the consent of the court) to consider his proposals. The administrator must call the first meeting of the committee within 3 months of its establishment, and subsequent meetings must be held either at specified dates agreed by the committee, or when a member of the committee asks for one, or when the administrator decides he needs to hold one. The committee has power to summon the administrator to attend before it and provide such information as it may require.

4 Fixing the Administrators' Fees

- 4.1 The basis for fixing the administrator's remuneration is set out in Rule 2.39 of the Insolvency (Scotland) Rules 1986 which states that it may be a commission calculated by reference to the value of the company's property with which he has to deal.

It is for the creditors' committee (if there is one) to fix the remuneration and Rule 2.39 says that in arriving at its decision the committee shall take into account:

- The work which, having regard to the value of the company's property, was reasonably undertaken by the administrator; and
- The extent of his responsibilities in administering the company's assets

Although not specifically stated in the rules, the normal basis for determining the remuneration will be that of the time costs properly incurred by the administrator and his staff.

- 4.2 If there is no creditors' committee, or the committee does not make the requisite determination, the administrator's remuneration will be fixed by the court on application by the administrator.

5 What information should be Provided by the Administrator?

- 5.1 Claims by the administrator for the outlays reasonably incurred by him and for his remuneration shall be made in accordance with section 53 of the Bankruptcy (Scotland) Act 1985 as applied by rule 4.68 which provides that within two weeks after the end of an accounting period, the administrator shall submit to the creditors' committee or if there is no creditors' committee, to the court:

- his accounts of intromissions for audit;
- a claim for the outlays reasonably incurred by him and for his remuneration, broken down into category 1 disbursements, being those costs where there is specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party, and category 2 disbursements, which are costs which include elements of shared or allocated costs, and are supplied internally by the administrator's own firm and

where the documents are submitted to the creditors' committee, he shall send a copy of them to the court.

- 5.2 The administrator may at any time before the end of an accounting period submit to the creditors' committee (if any) an interim claim for category 1 and 2 disbursements reasonably incurred by him and for his remuneration.
- 5.3 When seeking agreement to his fees and disbursements, the administrator should provide sufficient supporting information to enable the committee to form a judgement as to whether the proposed fee and disbursements are reasonable having regard to all circumstances of the case. The nature and extent of the supporting information which should be provided will depend on:
- the nature of the approval being sought;
 - the stage during the administration of the case at which it is being sought; and
 - the size and complexity of the case
- 5.4 Where, at any creditors' committee meeting, the administrator seeks agreement to the terms on which he is to be remunerated, he should provide the meeting with details of the charge-out rates of all grades of staff, including principals, which are likely to be involved on the case.
- 5.5 Where the administrator seeks agreement to his remuneration during the course of the administration, he should always provide an up to date receipts and payments account. Where the proposed remuneration is based on time costs the administrator should disclose to the committee or the court the time spent and the charge-out value in the particular case,

together with, where appropriate, such additional information as may reasonably be required having regard to the size and complexity of the case. The additional information should comprise a sufficient explanation of what the administrator has achieved and how it was achieved to enable the value of the exercise to be assessed (whilst recognising that the administrator must fulfil certain statutory obligations that might be seen to bring no added value for creditors) and to establish that the time has been properly spent on the case. That assessment will need to be made having regard to the time spent and the rates at which that time was charged, bearing in mind the factors set out in paragraph 4.1 above. To enable this assessment to be carried out it may be necessary for the administrator to provide an analysis of the time spent on the case by type of activity and grade of staff. The degree of detail will depend on the circumstances of the case, but it will be helpful to be aware of the professional guidance which has been given to insolvency practitioners on this subject. The guidance suggests the following areas of activity as a basis for the analysis of time spent:

- Administration and planning
- Investigations
- Realisation of assets
- Trading
- Creditors
- Any other case specific matters

The following categories are suggested as a basis for analysis by grade of staff:

- Partner
- Manager
- Other senior professionals
- Assistants and support staff

The explanation of what has been done can be expected to include an outline of the nature of the assignment and the administrator's own initial assessment, including the anticipated return to creditors. To the extent applicable it should also explain:

- Any significant aspects of the case, particularly those that affect the amount of time spent
- The reasons for subsequent changes in strategy
- Any comments on any figures in the summary of time spent accompanying the request the administrator wishes to make
- The steps taken to establish the views of creditors, particularly in relation to agreeing the strategy for the assignment, budgeting, time recording, or the drawing, or agreement of remuneration
- Any existing agreement about remuneration
- In cases where there are distributable funds available to unsecured creditors by means of the creditors' prescribed part, how the administrator has allocated remuneration and costs with regard to dealing with the administration of and agreeing of unsecured creditors' claims. Remuneration in respect of time spent dealing with issues specific to the funds for ordinary creditors will be applied against the creditors prescribed part, prior to the funds being distributed, and will not be applied against the total funds available to all creditors, including those available to the floating charge holder
- Details of how other professionals, including subcontractors, were chosen, how they were contracted to be paid, and what steps have been taken to review their fees

It should be borne in mind that the degree of analysis and form of presentation should be proportionate to the size and complexity of the case. In smaller cases not all categories of activity will be relevant, whilst further analysis may be necessary in larger cases.

- 5.6 Where the remuneration is charged as a commission based on the value of the company's property with which the administrator has had to deal, the administrator should provide details of any work which has been or is intended to be contracted out which would normally be undertaken directly by the administrator or his staff.
- 5.7 As noted in 5.1, any claim for outlays must be approved in the same way as remuneration. Professional guidance issued to Insolvency Practitioners requires that where the administrator proposes to recover costs which, whilst being in the nature of expenses or disbursements may include an element of shared or allocated costs (such a room hire, document storage or communication facilities) they must be approved as if they were remuneration. Such disbursements must be directly incurred on the case and subject to a reasonable method of calculation and allocation. A charge for disbursements calculated as a percentage of the amount charged for remuneration is not allowed.
- 5.8 Payments to outside parties in which the office holder or his firm or any associate has an interest should be disclosed to the body approving remuneration and should be treated in the same way as payments to himself. They therefore require specific approval as remuneration prior to being paid.

6 What if a Creditor is Dissatisfied?

- 6.1 If a creditor believes that the administrator's remuneration is too high, he may appeal against the determination by virtue of Section 53(6) of the Bankruptcy Act, applied by Rule 4.32 of the Insolvency Rules, which is in turn applied by Rule 2.39. Creditors have a right of appeal against the determination of an administrator's remuneration by virtue of the application of Section 53(6) of the Bankruptcy (Scotland) Act.
- 6.2 The right of appeal is either to the court (if the determination is by the creditors committee) or to a higher court (if the determination is by a court). Notwithstanding the fact that the statutory time limit for appealing expires eight weeks from the end of the accounting period concerned, it is normal practice to advise the creditors that they may appeal within 14 days of being notified of the determination in cases where this extends beyond the statutory appeal period.

7 What if the Administrator is Dissatisfied?

- 7.1 If the administrator considers that the remuneration fixed by the creditors' committee is insufficient he may request that it be increased by resolution of the creditors. If he considers that the remuneration fixed by the committee or the creditors is insufficient, he may apply to the court for an order increasing its amount or rate. If he decides to apply to the court he must give at least 14 days' notice to the members of the creditors' committee and the committee may nominate one or more of its members to appear or be represented on the application. If there is no committee, the administrator's notice of his application must be sent to such of the company's creditors as the court may direct, and they may nominate one or more of their number to appear or be represented. The court may order the costs to be paid as an expense of the administration.

8 Other Matters Relating to Fees

- 8.1 Where there are joint administrators it is for them to agree between themselves how remuneration payable should be apportioned. Any dispute arising between them may be referred to the court, the creditors' committee or a meeting of creditors.

Appendix F: Common questions and answers regarding the initial meeting of creditors and the creditors' committee

Why is the meeting being held?

The main purpose of the meeting is for creditors to consider and vote on the proposals which the administrators have prepared and sent to all creditors.

At the meeting, creditors will also be asked to decide whether a creditors' committee should be formed. The purpose of a creditors' committee is to assist the administrators. It may also fix their remuneration. If a creditors' committee is not formed, the creditors' meeting may be asked to vote on the administrators' remuneration instead.

Will the administrators and the company's directors be at the meeting?

At least one of the Administrators will attend the meeting and will act as chairman. The directors of Heritable do not have to attend the meeting unless the administrators have asked them to do so.

As a creditor, do I have to attend the meeting?

No. Your claim against Heritable will not be affected if you do not attend or vote.

If you do not wish to attend but still want to vote, you can appoint a proxy to vote on your behalf. Further information on proxies is set out below under 'How do I vote at the meeting?'

How do I vote at the meeting?

To be able to vote, you must send details of your claim in writing to the Administrators to arrive not later than 12 noon on the business day before the meeting. If you have not already submitted details in writing of your claim, you should use the form called 'Administration Notice of Claim for Voting Purposes' to do this.

Some creditors may also need to complete a proxy form and send it to the Administrators to arrive before the meeting. The table below tells you whether or not you need to complete and send in a proxy form.

Type of Creditor	Proxy form needed?
An individual (ie, not a company, partnership or other organisation) attending the meeting in person	No
An individual (ie, not a company, partnership or other organisation) not attending the meeting in person, but wishing to be represented at the meeting by someone else	Yes
A company, partnership or other organisation	Yes

A proxy form is enclosed with the covering letter to this document.

Do I have to vote?

No, it will not affect your claim if you do not vote. However, you will not have a say in whether the proposals and any other resolutions put to the meeting are accepted.

How do I calculate my claim for voting?

Please see the 'Administration Notice of Claim for Voting Purposes', sent to you with the documents for the meeting, for further information.

Who decides if my vote is counted?

The chairman of the meeting. The chairman has the power to ask for further information to support a claim if he or she thinks it is necessary and also has the power to accept or reject any claim for voting purposes.

If the chairman is in doubt about whether a claim for voting should be accepted or rejected, he or she should mark it as objected to but allow you to vote. Your vote will however be declared invalid if the objection is later sustained.

What majority is required to pass a resolution approving (ie, accepting) the Administrators' proposals?

There are two requirements to be met.

First of all, more than 50% in value of the creditors who vote on the resolution (either in person or by proxy) must vote in favour of it. Secondly, the creditors voting against the resolution must not include more than 50% in value of all creditors who are not connected with the company.

Can creditors propose modifications to the proposals?

Yes they can, but modifications can only be approved with the Administrators' consent.

What happens if I disagree with any of the chairman's decisions on voting?

You have the right to appeal to the court. Any appeal must be made within 14 days of the Administrators' report to the court on the result of the creditors' meeting. If the court decides to reverse a decision made by the chairman it may order another creditors' meeting to be held or make such other order as it thinks appropriate.

If you are considering an appeal to court, you should take your own legal advice first.

What happens if the Administrators' proposals are approved?

The Administrators will continue to run the Administration in accordance with the proposals.

Once proposals are approved, they are binding on all creditors, including those not present or represented at the meeting. For this reason, it is important that you consider the proposals carefully and decide if and how you wish to vote.

What happens if the Administrators' proposals are rejected?

The Administrators must report the fact to the court. The court may decide to bring the Administration to an end, or make such other order as it thinks appropriate.

How is a creditors' committee established?

A creditors' committee may be established at a creditors' meeting. For a committee to be validly formed it must consist of at least three and not more than five creditors elected at the meeting.

Any creditor is eligible to be a member of the committee as long as its claim has not been rejected for voting purposes. A corporate creditor can be a committee member but must be represented by, and act through, an individual. It is not possible for one individual to represent more than one creditor, or for an individual to act both as a committee member and a representative of another member.

Will I be told about the outcome of the meeting?

Yes. The Administrators will send to you a formal notice stating whether or not the proposals were approved and whether any modifications were made.

Appendix G: Landsbanki Islands hf Guarantee dated 19 January 2004

DATED

19 January 2004

- (1) LANDSBANKI ISLANDS hf**
- (2) HERITABLE BANK LIMITED**

GUARANTEE

THIS DEED is made on

19 January 2004

BETWEEN

- (1) **LANDSBANKI ISLANDS hf** (incorporated in Iceland) whose registered office is at Austurstraeti 11, Reykjavík, Iceland (the "Guarantor").
- (2) **HERITABLE BANK LIMITED** (registered in Scotland No.717) whose registered office is at 24 Great King Street, Edinburgh, EH3 6QN ("Heritable Bank").

WHEREAS

- (A) The Guarantor has agreed to guarantee the liabilities of Heritable Bank subject to the terms and conditions set out in this Guarantee.
- (B) It is intended that this Guarantee shall be enforceable against the Guarantor by the creditors of Heritable Bank in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999.

THIS DEED WITNESSES AS FOLLOWS:

INTERPRETATION

1.1 In this Guarantee the following terms shall have the following meanings:

- | | |
|----------------------|---|
| "Act" | means the Contracts (Rights of Third Parties) Act 1999; |
| "Agreements" | means the agreements between the Creditors and Heritable Bank under which the Liabilities arise; |
| "Creditors" | means creditors to whom the Liabilities are due, owing or incurred by Heritable Bank now or at any time in the future; |
| "Depositors" | means Heritable Bank's depositors (both present and future); |
| "Fitch" | Fitch Ratings Limited (registered in England number 1316230 ; and |
| "Liabilities" | means all monies and liabilities due, owing or incurred by Heritable Bank to Creditors provided that in the case of debts due, owing or incurred by Heritable Bank to the suppliers of goods and services the relevant amount is in excess of £30,000 or in the case of related obligations £30,000 in aggregate. |

1.2 In this Guarantee:-

references to this Guarantee are to include the indemnity in Clause 3.3;

references to clauses to be construed as references to the clauses of this Guarantee;

words importing the singular to include the plural and vice versa;

references to a person are to be construed to include references to a corporation, firm, company, partnership, joint venture, an incorporated body of persons, individual or any state or agency state, whether or not a separate legal entity;

reference to any person to be construed to include that person's assigns or transferees or successors in title, whether direct or indirect;

references to any statutory provision are to be construed as references to that statutory provision as amended, supplemented, re-enacted or replaced from time to time (whether before or after the date of this Guarantee) and to include any orders, regulations, instruments or other subordinate legislation made under or deriving validity from that statutory provision;

references to liability are to include any liability where actual, contingent, present or future; and

clause headings are for ease of reference only and are not to effect the interpretation of this Guarantee.

2. REPRESENTATIONS AND WARRANTIES

2.1 The Guarantor represents and warrants to Heritable Bank and the Creditors that:

the Guarantor is duly incorporated and is a validly existing limited liability company (Hutafleg) under the laws of Iceland, has the capacity to sue and be sued in its own name and has power to carry on its business has now been conducted and to own its property and other assets;

the Guarantor has full power and authority to execute, deliver and perform its obligations under this Guarantee and no limitation on the powers of the Guarantor will be exceeded as a result of the Guarantor entering into this Guarantee;

the execution, delivery and performance by the Guarantor of this Guarantee and the performance of its obligations under this Guarantee have been duly authorised by all necessary corporate action, will not require any consent from or filing with any party or body whether by virtue of any statutory requirement or under any contract and do not contravene or conflict with:

2.1.3.1 the Guarantor's Articles of Association

2.1.3.2 any existing law, statute, rule or regulation or any judgment, decree or permit to which the Guarantor is subject; or

2.1.3.3 the terms of any agreement or other document to which the Guarantor is a party which is binding upon it or any of its assets; and

this Guarantee is a legal, valid and binding obligation of the Guarantor enforceable against it in accordance with its terms.

3. **GUARANTEE AND INDEMNITY**

3. The Guarantor irrevocably and unconditionally undertakes the obligations and liabilities set out in clauses 3.2 and 3.3.

3.2 The Guarantor irrevocably and unconditionally Guarantees the due and punctual performance and discharge by Heritable Bank of the Liabilities and that it will pay to any Creditors on demand, and in the currency in which the same falls due for payment, all monies which are from time to time due by Heritable Bank to the Creditor.

3.3 The Guarantor, as primary obligor and as a separate and independent obligation and liability from its obligations and liabilities under clause 3.2, irrevocably and unconditionally agrees to indemnify all Creditors full on demand against all losses, costs and expenses suffered or incurred by the Creditor arising from or in connection with any failure by Heritable Bank duly and punctually to perform and discharge the Liabilities.

4. **PROTECTIONS FOR CREDITORS**

4.1 The Guarantor acknowledges and agrees that its liabilities under this Guarantee shall not be reduced, discharged or otherwise adversely affected by:-

any variation, extension, discharge, compromise, dealing with, exchange or renewal of any right or remedy which any Creditor may now or in the future have from or against any of Heritable Bank and any other person in respect of any of the obligations and liabilities of Heritable Bank or any other person under and in respect of any of the Agreements;

any act or omission by any Creditor or any other person in taking up, perfecting or enforcing any security, indemnity or guarantee from or against Heritable Bank or any other person;

any termination, amendment, variation, novation or supplement of or to any of the Agreements;

4.1.4 any grant of time, indulgence, waiver or concession to Heritable Bank or any other person;

Handwritten signature/initials

4.1.5 the insolvency, bankruptcy, liquidation, administration, winding-up, incapacity, limitation, disability, the discharge by operation of law, and any change in the constitution or name of Heritable Bank or any other person;

any invalidity, illegality, unenforceability, irregularity or frustration of any actual or purported obligation of Heritable Bank or any other person;

any act or omission which would have discharged or affected the liability of the Guarantor had it been a principal debtor instead of guarantor or indemnitor or by anything done or omitted by any person which but for this provision might operate to exonerate or discharge the Guarantor or otherwise reduce or extinguish its liability under this Guarantee.

4.2

The obligations and liabilities expressed to be undertaken by the Guarantor under this Guarantee are those of primary obligor and not merely as a surety.

4.3

Nothing shall prevent the Guarantor from taking security from Heritable Bank for the obligations under Heritable Bank but any such security shall be subject to the provisions of clauses 4.3.2 and 4.3.3.

The Guarantor agrees not to exercise any rights (whether by way of set-off, counterclaim, subrogation, indemnity, proof in liquidation or otherwise and whether from contribution or otherwise), together "Rights") against Heritable Bank or any other person in connection with this Guarantee until all liabilities have been paid and discharged in full.

If any Rights are exercised by the Guarantor in contravention of clause 4.3.2 all monies or other benefits received by the Guarantor shall be held by the Guarantor on trust for the Creditors.

4.4 This Guarantee shall be in addition to and shall not affect or be affected by or merge with any other judgment, security, right or remedy obtained or held by any Creditor from time to time for the discharge and performance of any of the Liabilities and obligations of the Principal Debtor to the Creditor.

5. DISCHARGE TO BE CONDITIONAL

5.1 Any release, discharge or settlement between the Guarantor and any Creditor in relation to this Guarantee shall be conditional upon no right, security, disposition or payment to the Creditor by any of the Guarantor and any other person being void, set aside or ordered to be refunded pursuant to any enactment or law relating to breach of duty by any person, bankruptcy, liquidation, administration, protection from creditors generally or insolvency or for any other reason.

5.2 If any such right, security, disposition or payment is void or at any time so set aside or ordered to be refunded, the Creditor shall be entitled subsequently to enforce this

Guarantee against the Guarantor as if such release, discharge or settlement had not occurred and any such security, disposition or payment had not been made.

6. PAYMENTS AND TAXES

6.1 All sums payable by the Guarantor under this Guarantee shall be paid to the Creditor in full without any set-off, condition or counterclaim whatsoever; and free and clear of all deductions or withholdings whatsoever save only as may be required by law or regulation which in either case is binding on it.

6.2 If any deduction or withholding is required by any law, practice or regulation (whether or not such practice or regulation has the force of law) in respect of any payment due from the Guarantor under this Guarantee or is in any event made, the relative sum payable by the Guarantor shall be increased so that, after making the minimum deduction or withholding so required, the Guarantor shall pay to the Creditor and the Creditor shall receive and be entitled to retain on the due date for payment a net sum at least equal to the sum which it would have received had no such deduction or withholding been required to be, or had in fact been, made.

7. COSTS

7.1 The Guarantor shall, on demand and on a full indemnity basis, pay to the Creditors the amount of all costs and expenses which any Creditor reasonably and properly incurs in connection with the enforcement of its rights against the Guarantor under this Guarantee.

8. COMMUNICATIONS

Any demand under this Guarantee shall be in writing signed by an officer or agent of the relevant Creditor and shall be served on the Guarantor at the Guarantor's registered or principal office for the time being.

Any notice (including any notice of termination under Clause 13.1) to be served by the Guarantor under this Guarantee shall be in writing signed by an officer or agent of the Guarantor and shall be served on Heritable Bank and Fitch at its registered office or principal place of business for the time being.

9. TRANSFERS

This Guarantee is not assignable or transferable by any Creditor.

The Guarantor may not assign any of its rights and may not transfer any of its obligations under this Guarantee or enter into any transaction which would result in any of those rights or obligations passing to another person.

10. CURRENCY INDEMNITY

If, under any applicable law or regulation or pursuant to a judgment or order being made or registered against the Guarantor or the liquidation of the Guarantor or without limitation for any other reason, any payment under or in connection with this Guarantee is made or falls to be satisfied in a currency (the "payment currency") other than the currency in which such payment is expressed to be due under or in

connection with this Guarantee (the "contractual currency") then, to the extent that the amount of such payment actually received by the Creditor, when converted into the contractual currency at the rate of exchange, falls short of the amount due under or in connection with this Guarantee, the Guarantor, as a separate and independent obligation, shall indemnify and hold harmless the Creditor against the amount of such shortfall. For the purposes of this Clause, "rate of exchange" means the rate at which the Creditor is able on or about the date of such payment to purchase, in accordance with its normal practice, the contractual currency with the payment currency and shall take into account (and the Guarantor shall be liable for) any premium and other costs of exchange including any taxes or duties incurred by reason of any such exchange.

11. MISCELLANEOUS

No delay or omission on the part of any Creditor in exercising any right or remedy under this Guarantee shall impair that right or remedy or operate as or be taken to be a waiver of it; nor shall any single partial or defective exercise of any such right or remedy preclude any other or further exercise under this Guarantee of that or any other right or remedy.

A Creditor's rights under this Guarantee are cumulative and not exclusive of any rights provided by law and may be exercised from time to time and as often as the Creditor deems expedient.

Any waiver by any Creditor of any terms of this Guarantee, or any consent or approval given by the Creditor under it, shall only be effective if given in writing and then only for the purpose and upon the terms and conditions, if any, on which it is given.

- 11.4 If at any time any one or more of the provisions of this Guarantee is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity and enforceability of the remaining provisions of this Guarantee nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall be in any way affected or impaired as a result.

12. LANGUAGE

All notices demands or communications under or in connection with this Guarantee shall be in English.

13. TERMINATION

- 13.1 The Guarantor may at any time terminate its liability under this Guarantee by giving not less than 3 (three) months notice of termination to Heritable Bank.

If the Guarantor gives notice of termination under clause 13.1 the obligations of the Guarantor under this Guarantee shall terminate on the expiry of the period referred to in clause 13.1 but such termination shall not affect the Guarantor's obligations to Creditors in respect of Liabilities which have been incurred prior to the date of termination.

If the Guarantor gives notice of termination under clause 13.1 it shall also give notice of termination to the Depositors. The notice to the Depositors shall inform them of

the effective termination date and give them the option of either retaining their deposits with Heritable Bank but without the benefit of this Guarantee or withdrawing their deposits prior to the effective termination date of this Guarantee. If a Depositor opts to withdraw his deposit any penalty or loss of interest or other cost which might be payable or incurred by the Depositor under the terms relating to his deposit shall be waived or reimbursed by Heritable Bank.

14. AMENDMENTS

The Guarantor may at any time amend this Guarantee by providing 6 (six) months notice to Heritable Bank.

If the Guarantor gives notice to amend under clause 14.1 the obligations of the Guarantor under this Guarantee shall not affect the Guarantor's obligations to Creditors in respect of Liabilities which have been incurred prior to the date of amendment

15. NOTIFICATION TO FITCH

If at any time the Guarantor gives notice under clause 13.1 or clause 14.1 the Guarantor will at the same time serve a copy of the notice on Fitch.

16. ENFORCEMENT BY CREDITORS

Each Creditor shall have the right to enforce this Guarantee against the Guarantor in accordance with its terms and in accordance with the Act.

Fitch shall have the right to enforce the provisions of clause 15.1 of this Guarantee in accordance with its terms and in accordance with the Act. For the avoidance of doubt Fitch shall not have the right to enforce any other provisions of this Guarantee.

17. LAW AND JURISDICTION

This Guarantee is governed by and shall be construed in accordance with English law.

The Guarantor irrevocably agrees for the benefit of the Creditors that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any dispute, which may arise out of or in connection with this Guarantee and for such purposes hereby irrevocably submits to the jurisdiction of such courts.

Nothing contained in this Clause shall limit the right of a Creditor to take proceedings against the Guarantor in any other court of competent jurisdiction, nor shall the taking of any such proceedings in one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not (unless precluded by applicable law).

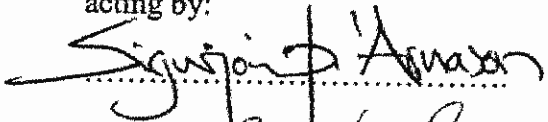
The Guarantor irrevocably waives any objection which it may have now or in the future to the courts of England being nominated for the purpose of this Clause on the ground of venue or otherwise and agrees not to claim that any such court is not a convenient or appropriate forum.

IN WITNESS hereof this Guarantee has been executed and delivered as a deed on the date stated above.

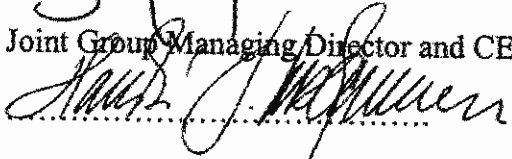
EXECUTED as a Deed

by **LANDSBANKI ISLANDS hf**

acting by:



Joint Group Managing Director and CEO



Joint Group Managing Director and CEO

EXECUTED as a Deed

by **HERITABLE BANK LIMITED**

acting by:



CHIEF EXECUTIVE

Director



FINANCE DIRECTOR

Director/Secretary