

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

|   |                            |
|---|----------------------------|
| Name of Company<br>Heritable Bank Plc (In Administration) | Company number<br>SC000717 |
|---|----------------------------|

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

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

|                 |                        |     |                          |
|-----------------|------------------------|-----|--------------------------|
|                 | from                   |     | to                       |
| (b) Insert date | (b) <u>1 July 2011</u> | (b) | <u>30 September 2011</u> |

Signed



Joint Administrator

Dated

4 November 2011

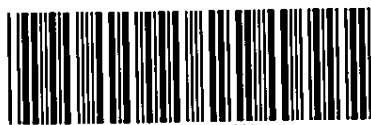
**Contact Details:**

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

|  |                    |
|--|--------------------|
| Joe Gaastra  |                    |
| Ernst & Young LLP, 1 More London Place, London SE1 2AF |                    |
|  | Tel: 0207 518 3057 |
| DX Number:   | DX Exchange:       |

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

Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB  
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SCT 12/11/2011 801  
COMPANIES HOUSE

TO ALL KNOWN CREDITORS

4 November 2011

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

Direct line: 020 7951 3057

email: [jgaastra@uk.ey.com](mailto:jgaastra@uk.ey.com)

Dear Sirs

**Heritable Bank Plc (In Administration) ("the Company")****Court of Session number: P1684/08****Registered office address: Ernst & Young LLP, George House, Glasgow, G2 1RR****Registered company number: SC000717**

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

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

On 19 August 2011, the Court of Session in Scotland approved the extension of the Administration for a further year, to 7 October 2012, in accordance with paragraph 76 of Schedule B1 to the Insolvency Act 1986.

Under the Rules, a progress report must be sent to creditors within six weeks after the end of each accounting period. Accounting periods are usually consecutive six-month periods commencing on an administrator's appointment, although accounting periods may be shortened with the court's permission. Following an application by the Administrators in October 2009 and in accordance with the judgment of the Court of Session in Scotland, the Company's accounting periods may now be shortened with the consent of the Company's creditors' committee. As dividends can only be declared and paid in respect of accounting periods which have ended, and in order to enable the payment of interim dividends, the Administrators have shortened the last eight accounting periods. With the consent of the Company's creditors' committee, the ninth accounting period ended on 30 September 2011.

## **Summary of progress since the August 2011 Report**

### **1. Deposits**

#### **1.1 Potential trust claims**

The Administrators continue to discuss the trust claims with the affected parties and without prejudice discussions have progressed substantially with a view to reaching a mutually agreed settlement.

### **2. Books of business**

#### **2.1 Structured Property Finance ("SPF")**

At the time of the Administrators' appointment, the SPF loan book comprised 252 loans with a book value of £372.4 million (£317.2 million net of impairments). The net book value of the loan book as at the date of Administration has subsequently been revised to £322.3 million, which reflects the Administrators' recovery expectations. Also included within the SPF loan book at the date of Administration were 99 short term funding loans ("STLB") with a net book value of £26.9 million. The net book value of the STLB has subsequently been revised to £34.4 million following a transfer of more complex STLB accounts from the residential mortgage loan book to SPF and a write back of £4.6 million of impairments, as previously advised.

As we have previously reported, the strategy remains to run off the SPF and STLB loan books. This involves continuing to provide finance to specific borrowers, where this delivers value. Whilst the Administrators will continue to assess the return to creditors through a continued run-off of the loan books compared with a sale of the remainder of the loan books, plans to formally test the market have been put on hold due to the continued success of the run off strategy. We have however, assessed the likely level of discount required by a purchaser, based on typical investment assessment criteria for this type of asset, and we do not currently believe that this represents good value for the creditors.

The outstanding loan books comprise 67 loans relating to: (i) land/sites (with and without planning) (25%); (ii) ongoing development projects (42%); and (iii) completed stock (33%).

The top 13 loan accounts now comprise 62% of the net book value of the remaining loan books. A recovery strategy has been determined for each of the borrower groups and, in line with these strategies, we have continued to meet requests for committed funds where expenditure helps to preserve the value of the loan books, as well as collecting interest and repayments on existing loans. The Administrators' strategies are continually revisited as construction and negotiations with the borrowers progresses. There are now only 13 of the original top 15 loans that existed at the date of Administration, following successful disposal initiatives for Jamesland Homes and the Garrick Homes development at Kingswood, Surrey. There are two additional loans relating to undeveloped sites which make up a further 21% of the net book value of the remaining loan book, bringing the aggregate for these 15 loans to 83% of the loan book.

The Administrators are proactively pursuing the completion of any exchanged contracts in relation to properties under offer and, where appropriate, are working to accelerate the sales or refinancing of any unsold units to minimise the negative impact on recoveries.

In the event that a borrower defaults on its loan and it is deemed by the Administrators that continued support of the borrower is not likely to maximise value, a formal demand has been issued and, in a number of cases, a Law of Property Act receiver ("LPA Receiver") or an Administrator has been appointed.

To date, the Administrators have issued formal demands in respect of 109 loans to 92 borrower groups. The Administrators have appointed LPA Receivers in respect of properties held by 56 borrower groups, as well as appointing Administrators over three borrower groups. This includes appointments over the STLB and SPF loan books.

Net cash receipts totalled £322.0 million as at 30 September 2011. This comprised of 284 loan redemptions and other capital receipts of £454.6 million and interest and fees of £15.4 million (less work in progress draw-downs of £107.5 million and less payments to Landsbanki Guernsey Limited (in Administration) of £40.5 million). The number of loans outstanding has decreased from 351 to 67 loans, with a net book value of £50.1 million. A further £2.9 million is required to fund work in progress payments for ongoing development projects.

## **2.2 Landsbanki Guernsey Limited (In Administration) ("LBG")**

As described in previous reports, we continue to work collaboratively with the Administrators of LBG to assist them in the recovery of a number of loans transferred in whole or in part to LBG. To facilitate this, we have completed the assignment of security to LBG over all of the fully transferred loans.

There remain seven borrower groups where a combined approach is required. There have been four payments since the August 2011 report in the sum of £0.6 million, with payments to LBG since the date of Administration totalling £42.0 million. Such payments comprise of £40.0 million of capital receipts and £2.0 million of interest.

## **2.3 Residential Mortgages ("RM")**

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

The gross value of the RM loan book on appointment was £690.0 million (including £64.7 million in relation to the STLB). This has reduced to £304.9 million (net of impairments of £23.3 million) as at 30 September 2011. Creditors should be aware that £58.5 million of the overall £385.1 million reduction has been a direct result of certain short term and other complex loans (including the STLB) being transferred from the RM division to the SPF division.

Gross receipts to 30 September 2011, including interest collections and capital repayments, total £348.7 million. Draw-downs of £2.7 million (in relation to short term development loans held in the RM loan book before the loans were transferred to SPF) have been made since the Administrators' appointment.

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

### **3. Subsidiary companies**

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

As previously reported, the Company is the largest creditor of HCP, being the beneficiary of an intercompany loan of £24.1 million as at the date of appointment. This subsequently reduced by £4.1 million by reason of set-off in relation to the Swaylands development project ("Swaylands").

HCP has six loans outstanding to borrowers which are secured against the relevant developments/sites. In addition, the Company has three loans outstanding to HCP in relation to Swaylands, which is owned by HCP.

Since the appointment, the Company has advanced a total of £10.0 million to HCP, of which £9.5 million relates to Swaylands and £0.5 million relates to other loans.

Negotiations to recover HCP's equity positions are ongoing. The two main projects, Swaylands and Neptune (Ealing Road) LLP ("Neptune"), comprise more than 80% of the Company's gross exposure to HCP.

In relation to Swaylands, receipts from completed sales in the development are roughly in line with the forecast and it is expected that this will allow HCP to repay the capital balance of its loan (in relation to this project) to the Company in full. In addition, following the completion of further sales, we believe that a percentage of interest charged will be recovered.

In relation to Neptune, following the previous offer falling away in the last quarter, marketing was accelerated, specifically targeting a number of parties, including the previous under bidder, but this failed to lead to a sale. The property was withdrawn from the market and an alternative marketing strategy is now being implemented.

Limited progress has been possible in relation to the remaining two projects owing to a combination of market circumstances and difficulties in obtaining planning permission; it is therefore unlikely that there will be a significant recovery on these.

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

As previously reported, HAF's remaining loan book was sold to Aldermore Bank Plc on 2 March 2010 for a consideration of £23.0 million, representing a return on the remaining book of 83.0 pence in the pound.

A total of four dividends have been paid to creditors, representing an overall return to creditors of 95.4 pence in the pound. As HAF's largest creditor, the Company has received total dividends of £71.5 million.

The Administrators of HAF have realised all assets and settled all outstanding costs. HAF was subsequently dissolved on 13 September 2011.

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

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

## **4. Customer collections**

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

To date, direct debit indemnity claims totalling £25,912 have been settled with HSBC as an expense of the Administration.

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

## **5. Employees**

As previously reported, retention plans are in place for the remaining employees based upon their service line. The retention plans for certain service lines were reviewed in December 2010, at which time further retention plans were put in place. The Administrators intend to periodically review the headcount and consider whether any further redundancies are appropriate.

## **6. Statutory matters**

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

## **7. Receipts and payments account**

I enclose an abstract of receipts and payments account for the period 7 October 2008 to 30 September 2011. This does not reflect estimated future realisations or costs.

To date, receipts total £970.1 million. Cash at bank as at 30 September 2011 was £53.1 million after total payments of £917.0 million.

For the period 1 July 2011 to 30 September 2011, receipts totalled £54.5 million and payments totalled £52.9 million (substantially comprising payments made to creditors in respect of the eighth interim dividend).

Please note that a ninth interim dividend of 4.18 pence in the pound, totalling £42.2 million, was paid on 18 October 2011 as reported below. As such, the cash balance detailed above has since been reduced by this sum.

## **8. Administrators' remuneration and disbursements**

The Administrators' remuneration was fixed on a time-cost basis by a resolution of the creditors' committee passed on 22 December 2008. The Administrators have incurred time costs of £20.5 million (including VAT) against which the sum of £19.6 million (including VAT) has been drawn. An analysis of the time spent is included at Appendix 2 of this report. Appendix 3 includes a statement of the Administrators' policy in relation to charging time and disbursements.

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

To date, the sum of £52,626 (including VAT) has been drawn in respect of disbursements, as recorded in the abstract of receipts and payments at Appendix 1.

## **9. Creditors**

### **9.1 Secured creditors**

The Company has no secured creditors.

### **9.2 Preferential creditors**

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

### **9.3 Non-preferential creditors**

Total non-preferential claims received (excluding those received from Landsbanki Islands h.f. ("LIHF")) amount to c. £1,009.6 million. These claims were adjudicated upon and admitted in the following amounts:

|   |              |
|---|--------------|
| Retail Deposits – Financial Services Compensation Scheme ("FSCS") | £547,062,084 |
| In House and Pending Accounts – FSCS                              | £8,149,926   |
| In House and Pending Accounts – not paid by FSCS                  | £641,097     |
| Landsbanki Guernsey   | £34,347,647  |

|                                       |                       |
|---------------------------------------|-----------------------|
| Wholesale Deposits – not paid by FSCS | £414,943,788          |
| Wholesale Deposits – FSCS             | £490,324              |
| Trade Creditors                       | £1,251,285            |
| Employees                             | £1,513,744            |
| RPO                                   | <u>£80,091</u>        |
|                                       | <u>£1,009,611,488</u> |

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

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

### 9.3.1 Retail deposits

The position remains as previously reported.

### 9.3.2 Other creditors

The Administrators have received claims of £1.5 million from other unsecured non-preferential creditors. These comprise amounts due to wholesale brokers and trade suppliers. We have admitted claims totalling £1.2 million for the purposes of the ninth interim dividend (claims of £1.2 million were admitted for the eighth dividend) and rejected claims totalling £0.2 million.

### 9.3.5 Employees

The non-preferential element of employees' claims admitted for the purposes of the ninth interim dividend totalled £1.5 million.

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

## 9.4 Intercompany claims

### 9.4.1 Intercompany liabilities

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

On 28 September 2011, the Inner House of the Court of Session (the Scottish appeal court) handed down its decision on the preliminary issue heard in July as part of the on-going litigation between the Company and LIHF. The preliminary issue before the Inner House was whether a decision of the Winding-up Board of LIHF made in the Icelandic winding-up proceedings of LIHF in relation to the existence and extent of any claims by the Company against LIHF was decisive for the purposes of the Company's Scottish Administration.

The Company was successful in its appeal and the Inner House unanimously found in favour of the Company on the preliminary issue (in effect reversing the first instance decision of Lord Glennie), and held that the decision of the Winding-up Board of LIHF does not have effect for the purposes of the Company's Administration.



On 6 October 2011, LIHF lodged a motion seeking leave to appeal the decision of the Inner House to the Supreme Court and the Company lodged a motion of opposition on 10 October 2011.

Following a procedural hearing in front of the Court of Session on 20 October 2011, LIHF was granted leave to appeal the Inner House's decision to the Supreme Court.

The Administrators shall report further on developments and next steps in the appeal process in their next report.

#### **9.4.2 Intercompany receivables**

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

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

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

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

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

HAF had paid the Company total dividends of £71.6 million. The Administrators of HAF have filed for dissolution on 13 September 2011.

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

## 10. Distributions to creditors

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

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

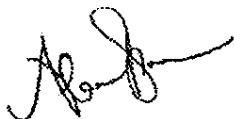
- (i) a first interim dividend of c. 16.1 pence in the pound in an amount of c. £162.7 million on 28 July 2009;
- (ii) a second interim dividend of c. 12.7 pence in the pound in an amount of c. £127.7 million on 16 December 2009;
- (iii) a third interim dividend of c. 6.2 pence in the pound in an amount of c. £62.5 million on 26 March 2010;
- (iv) a fourth interim dividend of c. 6.3 pence in the pound in an amount of c. £63.3 million on 15 July 2010;
- (v) a fifth interim dividend of c. 4.1 pence in the pound in an amount of c. £41.8 million on 14 October 2010;
- (vi) a sixth interim dividend of c. 4.7 pence in the pound in an amount of c. £47.6 million on 14 January 2011;
- (vii) a seventh interim dividend of c. 6.2 pence in the pound in an amount of c. £63.1 million on 15 April 2011;
- (viii) an eighth interim dividend of c. 4.1 pence in the pound in an amount of c. £41.0 million on 13 July 2011; and
- (ix) a ninth interim dividend of c. 4.2 pence in the pound in an amount of £42.2 million on 18 October 2011. The ninth dividend has been made in accordance with the scheme of division included in Appendix 4 to this report.

The Administrators intend to declare a tenth interim dividend in January 2012. The quantum of this dividend remains subject to the continued collection of funds through a run-off of the various loan books. A letter and notice of this intended distribution are attached at Appendix 5 to this report.

As per the letter to all known creditors dated 28 July 2011, the Administrators revised the estimated return to creditors in the Administration to a base case return of 86 to 90 pence in the pound and a stressed case return of 74 to 80 pence in the pound.

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

Yours faithfully  
for Heritable Bank Plc (In Administration)

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

AR Bloom  
Joint Administrator

Enc: Joint Administrators' Abstract of Receipts and Payments Account  
Summary of Joint Administrators' Time-Costs and Category 2 Disbursements  
Joint Administrators' Policy on Fees and Disbursements  
Scheme of division in respect of the ninth interim dividend  
Letter and Notice of intended tenth interim dividend

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

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

## Appendix 1

### Heritable Bank Plc (In Administration) - Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 30 September 2011

|   | Balance as at 30<br>June 2011 | Movement from 1<br>July 2011 to 30<br>September 2011 | Balance as at 30<br>September 2011 |
|---|-------------------------------|--|------------------------------------|
|   | £                             | £  | £                                  |
| <b>Receipts</b>                             |                               |  |                                    |
| SPF Interest                                | 11,501,151                    | 77,084   | 11,578,215                         |
| Mortgage Receipts                           | 75,508,434                    | 4,452,404  | 79,960,837                         |
| Sundry                                      | 114,703                       | 15,771   | 130,474                            |
| Mortgage Redemptions                        | 240,434,272                   | 26,072,782   | 266,507,054                        |
| Funds from Aldermore Bank                   | 158,082                       | -  | 158,082                            |
| SPF Plot Sale                               | 428,038,888                   | 19,460,288   | 447,499,176                        |
| SPF Capital Reduction                       | 10,187,298                    | 3,800  | 10,191,098                         |
| Post Appointment VAT refund                 | 296,054                       | 48,803   | 344,857                            |
| Receipts from ING                           | 836,752                       | -  | 836,752                            |
| Refund of Cash Ratio from BOE               | 587,406                       | -  | 587,406                            |
| Financing                                   | 113,995                       | -  | 113,995                            |
| Bank Interest                               | 842,577                       | 35,215   | 877,793                            |
| Dividends From Subsidiaries                 | 118,894,421                   | 18,000   | 118,912,421                        |
| Intercompany Recharges                      | 5,523,462                     | -  | 5,523,462                          |
| Cash at Bank                                | 348,470                       | (145,004)  | 203,467                            |
| Bawag Loan                                  | 20,000,000                    | -  | 20,000,000                         |
| Dividends Received From Related Parties     | 7,550                         | -  | 7,550                              |
| Transfer from Direct Debit Indemnity        | 92,187                        | -  | 92,187                             |
| Transfer from Euro account                  | 0                             | 4,507,385  | 4,507,385                          |
| Transfer from Claims Reserve                | 2,172,970                     | -  | 2,172,970                          |
|   | <b>915,550,429</b>            | <b>54,548,290</b>                                    | <b>970,098,719</b>                 |
| <b>Payments</b>                             |                               |  |                                    |
| Direct Labour                               | 12,067                        | -  | 12,067                             |
| Pension                                     | 897,508                       | 43,184   | 940,692                            |
| Net Wages                                   | 6,369,407                     | 320,493  | 6,719,899                          |
| Employees NIC Reimbursement / NIC           | 15,015                        | 2,507  | 17,523                             |
| Employee Life Insurance                     | 13,508                        | (1,713)  | 11,795                             |
| RML Other                                   | 70,744                        | -  | 70,744                             |
| Professional Fees                           | 210,584                       | 38,000   | 248,584                            |
| Scottish Lodgement Fee                      | 15                            | -  | 15                                 |
| Refund of overpayment                       | 144,482                       | -  | 144,482                            |
| Business Rates                              | 1,438,437                     | 52,654   | 1,491,092                          |
| Repayment of post-appointment receipts      | 52,859                        | -  | 52,859                             |
| Employee Expenses                           | 30,536                        | -  | 30,536                             |
| Sundry Expenses                             | 187,732                       | 1,512  | 189,244                            |
| Bank Charges and Interest                   | 51,387                        | 1,858  | 53,245                             |
| Administrators Fees                         | 18,599,097                    | 983,651  | 19,582,748                         |
| Administrators Disbursements                | 51,586                        | 1,000  | 52,586                             |
| Legal Disbursements                         | 72,298                        | -  | 72,298                             |
| Legal Fees                                  | 9,806,871                     | 718,045  | 10,524,917                         |
| Loans to Subs                               | 620                           | -  | 620                                |
| SPF - Legal                                 | 1,525,679                     | -  | 1,525,679                          |
| Purchase Orders/Trade Suppliers             | 6,288,281                     | 130,172  | 6,418,453                          |
| SPF Drawdown                                | 92,733,188                    | 2,412,205  | 95,145,393                         |
| RML Drawdown                                | 2,699,594                     | -  | 2,699,594                          |
| HCP Drawdown                                | 650,985                       | 292  | 651,277                            |
| Ransom Payments - Trade / Legal             | 273,080                       | -  | 273,080                            |
| RML - Legal                                 | 256,321                       | -  | 256,321                            |
| Bawag Loan Interest                         | 22,657,706                    | -  | 22,657,706                         |
| Bawag Loan fee                              | 1,000,000                     | -  | 1,000,000                          |
| Transfer to claims reserve account          | 65,731,571                    | -  | 65,731,571                         |
| Payments on behalf of HCP                   | 9,383,088                     | 878,054  | 10,261,142                         |
| Direct Debit Indemnity Claims               | 16,529                        | -  | 16,529                             |
| Insurance                                   | 370,315                       | 11,486   | 381,801                            |
| PAYE  | 4,473,147                     | 310,517  | 4,783,664                          |
| Transfer to HSBC DD Cash Collateral A/c     | 148,412                       | -  | 148,412                            |
| Newcastle building society                  | 670,025                       | -  | 670,025                            |
| Payments to Landsbanki Guernsey             | 41,419,616                    | 578,252  | 41,997,868                         |
| VAT Payment                                 | 1,844,170                     | -  | 1,844,170                          |
| Distribution to preferential creditors      | 36,564                        | -  | 36,564                             |
| First distribution to unsecured creditors   | 163,195,831                   | (539)  | 163,195,292                        |
| Second distribution to unsecured creditors  | 127,732,167                   | -  | 127,732,167                        |
| Third distribution to unsecured creditors   | 62,482,199                    | -  | 62,482,199                         |
| Fourth distribution to unsecured creditors  | 63,317,833                    | -  | 63,317,833                         |
| Catch up payments for previous dividends    | 233,579                       | -  | 233,579                            |
| Fifth distribution to unsecured creditors   | 41,751,879                    | 1,021  | 41,752,900                         |
| Sixth distribution to unsecured creditors   | 47,610,416                    | -  | 47,610,416                         |
| Seventh distribution to unsecured creditors | 63,111,789                    | -  | 63,111,789                         |
| Eighth distribution to unsecured creditors  | 0                             | 45,566,114   | 45,566,114                         |
| Oakwood Management Fee                      | 4,282,778                     | 854,959  | 5,137,737                          |
| Assignment of VAT Liability                 | 128,165                       | -  | 128,165                            |
| Petty Cash                                  | 11,800                        | -  | 11,800                             |
| Property Surrender Payment                  | 228,000                       | -  | 228,000                            |
| HMRC tax/nic deductions re emp dividend     | 54,011                        | -  | 54,011                             |
|   | <b>854,146,529</b>            | <b>52,900,075</b>                                    | <b>917,046,604</b>                 |
|   | <b>51,403,900</b>             | <b>1,646,215</b>                                     | <b>53,050,115</b>                  |
| <b>Represented By:</b>                      |                               |  |                                    |
| Royal Bank of Scotland                      | 33,411,565                    | (22,810,725)   | 10,600,841                         |
| Santander                                   | 0                             | 14,781,795   | 14,781,795                         |
| HBOS  | 0                             | 18,795,480   | 18,795,480                         |
| HSBC Current Account                        | 9,204,542                     | (5,616,772)  | 3,587,770                          |
| HSBC - SPF account                          | 8,787,793                     | (3,503,545)  | 5,284,248                          |
| DD Cash Collateral Account                  | 0                             | -  | -                                  |
| Euro current account                        | 0                             | -  | -                                  |
|   | <b>51,403,900</b>             | <b>1,646,215</b>                                     | <b>53,050,115</b>                  |

## Appendix 2

### Heritable Bank Plc (In Administration)

#### Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 30 September 2011

| Classification of work function  | Partner         | Executive Director | Senior Manager  | Manager         | Senior           | Staff            | Total Hours      | Average Hourly Rate (£) | Time costs for period (£) |
|--|-----------------|--------------------|-----------------|-----------------|------------------|------------------|------------------|-------------------------|---------------------------|
| Accounting, Administration, Bank & Statutory Reporting, Statutory Duties and Immediate Tasks | 242.60          | 13.90              | 610.70          | 627.70          | 1,925.40         | 6,853.90         | 10,274.20        | 240.47                  | £2,470,590.76             |
| Creditors and Debtors  | 232.40          | 23.30              | 306.30          | 1,251.10        | 2,666.90         | 2,092.30         | 6,572.30         | 246.22                  | £1,618,254.02             |
| Employee Matters   | 40.60           | -                  | 162.20          | 83.00           | 556.40           | 37.80            | 880.00           | 329.17                  | £289,666.36               |
| FSA/BoE Reporting  | 7.50            | 1.00               | 110.80          | 90.50           | 91.50            | -                | 301.30           | 394.80                  | £118,954.50               |
| Investigations   | 2.00            | 0.50               | 14.00           | 3.50            | 17.00            | 38.00            | 75.00            | 125.43                  | £9,407.50                 |
| Legal Issues   | 86.90           | 2.00               | 16.00           | 5.00            | 36.50            | 35.20            | 181.60           | 442.70                  | £80,394.98                |
| Other Assets and KBFC  | 10.00           | 0.50               | 6.00            | 75.50           | 20.80            | 16.00            | 128.80           | 418.30                  | £53,877.29                |
| Public Relations   | 6.10            | 4.00               | 6.00            | 3.00            | -                | -                | 19.10            | 450.79                  | £8,610.00                 |
| Residential Mortgage   | 296.00          | 374.40             | 880.10          | 1,180.80        | 1,253.60         | 412.40           | 4,397.30         | 407.65                  | £1,792,568.87             |
| Outsourcing of Residential Mortgage Book   | 11.00           | 130.80             | 764.00          | 57.00           | 85.00            | -                | 1,047.80         | 518.38                  | £543,157.50               |
| Retail Book  | 41.80           | 1.50               | 162.50          | 668.50          | 516.00           | 219.30           | 1,629.60         | 328.22                  | £534,874.13               |
| Retention of Title   | 1.50            | -                  | 1.10            | -               | 5.50             | -                | 8.10             | 356.36                  | £2,886.50                 |
| Sale Process   | 63.80           | 123.00             | 80.50           | 122.00          | 606.00           | 55.00            | 1,050.30         | 407.24                  | £427,725.85               |
| Structured Property Finance  | 556.90          | 865.80             | 4,239.70        | 3,496.80        | 6,916.50         | 1,489.00         | 17,564.70        | 418.20                  | £7,345,512.53             |
| Steps pre-appointment  | 12.00           | 4.00               | 15.00           | -               | -                | -                | 31.00            | 567.42                  | £17,590.00                |
| Trading  | 4.00            | -                  | 390.30          | 1,551.20        | 988.70           | 503.90           | 3,438.10         | 316.47                  | £1,088,058.34             |
| VAT & Taxation   | 103.90          | 219.40             | 488.90          | 432.30          | 833.40           | 171.60           | 2,249.50         | 528.41                  | £1,188,667.63             |
| Wholesale Depositors   | -               | -                  | -               | -               | 25.60            | 40.00            | 65.60            | 103.41                  | £6,784.00                 |
| <b>Grand Total</b>   | <b>1,719.00</b> | <b>1,764.10</b>    | <b>8,274.10</b> | <b>9,647.90</b> | <b>16,544.80</b> | <b>11,964.40</b> | <b>49,914.30</b> |                         | <b>£17,597,580.76</b>     |

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

#### Charge out rates for the Administration team

| Grade                    | Standard Rates for Restructuring 2010/2011 | Standard Rates for M&A 2010/2011 |
|--------------------------|--|----------------------------------|
| Partner                  | 743  | 812                              |
| Director                 | 674  | 711                              |
| Assistant Director       | 520  | 584                              |
| Senior Executive         | 382  | 435                              |
| Executive                | 281  | 350                              |
| Assistant Executive      | 217  | -                                |
| Client Service Associate | 207  | -                                |
| Analyst                  | 180  | -                                |
| Business Trainee         | 153  | -                                |

The above rates represent a 3% uplift as approved by the Creditors' Committee effective from 1 July 2011.

## **Appendix 3**

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

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

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

The Administrators have engaged a manager and other staff to work on the cases. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by Accounting and Treasury Executives dealing with the Company's bank accounts and statutory compliance issues. Work carried out by all staff is subject to the overall supervision of the Administrators.

All time spent by staff working directly on case-related matters is charged to a separate time code established for each case. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rate for each category of staff over the period is shown in Appendix 2, as are the current hourly rates used. The current hourly rates may be higher than the average rates, if hourly rates have increased over the period covered by this report.

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

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

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

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

We do not propose to draw any Category 2 disbursements.

## Appendix 4

### Heritable Bank Plc (In Administration) ("the Company")

#### Administrators' Proposed Scheme of Division for the Ninth Interim Dividend as at 30 September 2011

|   | £            | £               |
|---|--------------|-----------------|
| Balance of Receipts and Payments account  |              | 53,050,114.56   |
| Balance of Reserve account  |              | 69,040,250.80   |
| <u>Provisions for Estimated Payments</u>  |              |                 |
| Administrators' fees (unbilled July, August and September 2011)   | 892,209.20   |                 |
| Administrators' fees (forecast for 3 months)  | 635,490.00   |                 |
| Legal costs (unbilled and forecast for 3 months)  | 200,000.00   |                 |
| Trading costs (forecast for 3 months)   | 1,425,402.96 |                 |
| SPF drawdowns   | 2,841,000.00 |                 |
| Late payments in respect of first, second, third, fourth, fifth, sixth, seventh and eighth dividends <sup>1</sup>               | 3,925.38     |                 |
|   |              | (5,803,931.95)  |
| Provision for potential payments in respect of first, second, third, fourth, fifth, sixth, seventh and eighth interim dividends |              | (69,040,250.80) |
| Balance available for ninth interim dividend to unsecured creditors   |              | 46,994,288.42   |
| Provision for potential payments in respect of ninth interim dividend <sup>2</sup>  |              | (4,778,456.81)  |
| Dividend payable for ninth interim dividend to unsecured creditors  |              | 40,963,603.48   |

The estimated sum of £46,994,288.42 represents a dividend of c. 4.18 pence in the pound to unsecured creditors whose claims total £1,009,611,488.05.

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<sup>1</sup>This relates to payments made to creditors who did not prove their debts prior to the declaration of the first, second, third, fourth, fifth, sixth or seventh interim dividends

<sup>2</sup> Breakdown set out below

Provision for potential payments in respect of ninth interim dividend:

|  | Note | £             | £                    |
|--|------|---------------|----------------------|
| Estimated Employees' Claims                                    | 1    |               | 850,153.09           |
| Trade Creditors  | 2    |               | 321,290.56           |
| <u>Claims submitted by Landsbanki (each as defined below):</u> |      |               |                      |
| RCF Claim  | 3    | 85,985,378.60 |                      |
| MPA Claim  | 4    | 17,122,221.92 |                      |
| Guarantee Claim  | 5    | 0.00          |                      |
| Subordinated Debt Claim  | 6    | 0.00          |                      |
|  |      |               | <hr/> 104,279,044.17 |
| General Provision  | 7    |               | 10,000,000.00        |
| Total Provisions   |      |               | <hr/> 114,279,044.17 |
| Dividend of 4.18p/£  |      |               | <hr/> 4,636,830.14   |

Notes:

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



## Appendix 5

TO ALL KNOWN CREDITORS

4 November 2011

Ref: LO3465/ARB/DE/JG/PF18.1

Joe Gastra  
Direct line: 020 7518 3057  
Direct Fax: 020 7951 1345  
email: [jgastra@uk.ey.com](mailto:jgastra@uk.ey.com)

Dear Sirs

### Heritable Bank plc (in Administration) ("the Company")

Having obtained the permission of the Court of Session to do so, I intend to declare a tenth interim dividend to non-preferential unsecured creditors in the Administration of the Company. I have reason to believe that you may be a creditor of the Company.

If you have not already submitted details to me of your debt, you may lodge a statement of claim with me at the above address up to 30 November 2011 ("the last date for submitting claims"), quoting the name of the Company and the reference above.

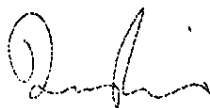
If you have not submitted details of your debt by the last date for submitting claims, you may be excluded from the dividend, which I intend to declare in January 2012.

Please note, however, that you will not need to submit a statement of claim if you have done so previously or have already provided the following details to me in respect of your claim:

- (i) your name and address;
- (ii) the amount of the debt;
- (ii) brief particulars of how it was incurred; and
- (iv) details of any security held in respect of the debt.

If you have any queries concerning this notice or whether you need to submit a statement of claim in respect of your debt, please contact the Joint Administrators of the Company at Ernst & Young LLP, 1 More London Place, London SE1 2AF or Joe Gastra on 0207 518 3057.

Yours faithfully  
for Heritable Bank Plc (in Administration)



Dan Edkins  
for A R Bloom  
Joint Administrator

The Insolvency Practitioners Association in the UK authorises Patrick Joseph Brazzill to act as an Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986 and the Institute of Chartered Accountants of Scotland in the UK authorises Thomas Merchant Eulton to act as an Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986. The Institute of Chartered Accountants in England and Wales in the UK authorises A R Bloom and M 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.

## **Notice of Intended Dividend**

### **Heritable Bank plc (in Administration)**

NOTICE IS HEREBY GIVEN that, pursuant to paragraph 65(3) of Schedule B1 of the Insolvency Act 1986, the Joint Administrators of Heritable Bank plc (in Administration) intend to declare a tenth interim dividend to non-preferential creditors, who are required on or before 30 November 2011 ("the last date for claims") to submit their statement of claim to the undersigned, and if so requested to provide such further details or produce such documentation or other evidence as may appear to the Joint Administrators to constitute evidence of his debt. A creditor who has not submitted details of his debt (or such documentation or evidence) by the last date for claims may be excluded from the dividend that the Joint Administrators intend to declare.

Creditors who have already submitted a statement of claim, or who have already supplied the Joint Administrators with details of their debt including: (i) their name and address; (ii) the amount of the debt; (iii) brief particulars of how it was incurred; and (iv) details of any security held in respect of the debt, need not resubmit their claim.

Should you wish to submit a claim, the statement of claim and documentation or evidence in support of your claim must be sent to the Joint Administrators of Heritable Bank plc (in Administration), c/o Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

It is anticipated that the dividend will be declared and paid in January 2012.

Dated this 4th day of November 2011



Alan Robert Bloom  
Joint Administrator