

The Insolvency Act 1986

**Administrators' progress report****2.24B**

Name of Company

Key Business Finance Corporation plc

Company number

02268959

In the

High Court of Justice

[full name of court]

Court case number

9077 of 2008

(a) Insert full name(s)  
and address(es) of  
administrator(s)I / We (a) Alan Robert Bloom and Margaret Elizabeth MillsErnst & 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) 15 October 2008

(b) 14 April 2009

Signed

Joint / Administrator(s)

Dated

**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

Victoria Smith

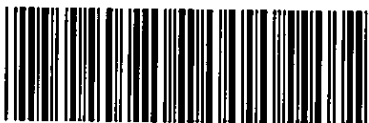
Ernst &amp; Young LLP, 1 More London Place, London, SE1 2AF

Tel: 0207 951 2673

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TO ALL KNOWN CREDITORS

13 May 2009

Ref: ML7E/VS/DM/ARB/LO3474/PF16.1  
Direct line: 0207 951 2673  
Direct Fax: 020 7951 1345  
Victoria Smith  
email: [vsmith3@uk.ey.com](mailto:vsmith3@uk.ey.com)

Dear Sirs

**Key Business Finance Corporation Plc (In Administration)**

**High Court of Justice, Number 9077 of 2008**

**Registered office address: 1 More London Place, London, SE1 2AF**

**Registered company number 02268959**

I write, in accordance with Rule 2.47 of The Insolvency Rules 1986, to provide creditors with a report on the progress of the administration. This report covers the period from 15 October 2008 to 14 April 2009 and should be read in conjunction with the Joint Administrators' proposals dated 21 November 2008 (the "Proposals").

Key Business Finance Corporation plc ("KBFC"), registered number 02268959, entered administration on 15 October 2008 and AR Bloom and ME Mills were appointed to act as Joint Administrators (the "Administrators"). The appointment was made by KBFC's directors under the provisions of paragraph 22(2) of Schedule B1 to the Insolvency Act 1986. Under the terms of the appointment, any act required or authorised to be done by the Administrators can be done by either of them.

**Extensions to the Initial Period of Appointment**

To date the Administrators have not submitted a request to the Court for an extension to the initial one year administration period. At present it is not clear whether or not it will be necessary to do so.

**Summary of Progress**

***Run Off***

On appointment of the Administrators, the total book value of the loan book was c. £57.9m. Approximately £6.9m of the loan book at appointment is subject to a charge in favour of Fortis Lease (UK) Limited ("Fortis"). Fortis provided the funding to KBFC for these loans charged to Fortis (the "Fortis Funded Loans").

As set out in the Proposals, market interest for the KBFC loan book was low and offers that were made for the book when it was marketed were significantly lower than forecast recoveries



through a run off and accordingly the decision was taken to place the entirety of the loan book into run off.

The terms of loans made by KBFC tend to be relatively short, usually between 6-18 months. It is estimated that 87.5% of the loan book will have run off by March 2010.

The Administrators will continue to assess the return to creditors through a continued run-off compared with a sale of the remainder of the book at a later date.

### ***Customer Collections***

Collections to 14 April 2009 total approximately £32.3m in relation to assets not charged to Fortis, and approximately £1.6m in relation to Fortis Funded Loans.

As stated in the Proposals, KBFC experienced disruption to its Direct Debit collection facilities immediately after the commencement of the administration. Given the low volume, fixed payment nature of the KBFC loan book, it was possible to transition the KBFC loan book to payment by standing order. Customers were requested in December 2008 to complete and return standing order forms and make cheque payments or bank transfers for arrears that had accrued up to that point.

During this period, there was a significant build-up of arrears. Arrears peaked at c. £16.7m at the start of this year, but these have now reduced to c. £3.7m at 14 April 2009.

Included within the arrears position are a number of customers who are also creditors by virtue of having paid initial instalments to KBFC as part of an application process for loans which were not ultimately funded by KBFC (the "Customer Instalments"). Although contractually customers have no right of set-off in relation to Customer Instalments, the Administrators recognise that mandatory insolvency set-off applies at the time of making a distribution to unsecured creditors. As detailed further below, the Administrators have obtained court leave to make an interim distribution to unsecured creditors, and therefore upon making those distributions, rights of set-off which customers have in relation to Customer Instalments will be taken into account. Accordingly, given the present intention of the Administrators to make an interim distribution to unsecured creditors around June 2009, KBFC's claims against customers which would remain after application of any applicable set-offs have been pursued with the highest priority.

Other customers have experienced cash flow difficulties as a result of the withdrawal of finance facilities that they have relied upon in the past. Where this is the case, KBFC have sought to agree mutually acceptable repayment plans, allowing additional time to settle remaining debts.

There are a number of customers who are seeking to avoid their liabilities altogether. Legal proceedings have been commenced in a number of cases and the Administrators shall continue to take action where necessary to ensure maximum realisations are obtained for the benefit of creditors.

**Fee Funding Loan Book**

The fee funding loan book was a group of loans to individual customers who used the loans to pay certain legal fees. These loans tended to have a longer term than the majority of the book and, as such, would have remained once most of the loan book had run off. The fee funding loans also had the propensity to be relatively burdensome in terms of daily administration.

The fee funding book was sold to Hampshire Trust Plc for a consideration of 72.5 pence in the pound of total loan book value, realising c. £381k. The agreed price was considered to be a good return for creditors in light of the reduced burden on the staff at KBFC and the Administrators, as well as the uncertain and likely limited recovery from any future sale as part of the remaining rump of KBFC loans.

**Fortis Charge**

Having taken legal advice, the KBFC Administrators have disputed Fortis' assertion that their charge should be treated as a fixed charge. The KBFC Administrators have classified the charge as a floating charge. The main consequence of this from a creditors' perspective is that in accordance with the Act, a portion of realisations from the Fortis Funded Loans will be ring-fenced for the benefit of unsecured creditors. This is known as the 'Prescribed Part' and is subject to a maximum of £600,000. It is envisaged that the prescribed part in this case will amount to the maximum amount.

The Administrators continue to deal with the Fortis Funded Loans in line with rest of the KBFC loan book, however where appropriate, are liaising with Fortis on the appropriate realisation strategies.

There have been some discussions with Fortis regarding the sale by KBFC of the Fortis Funded Loans to Fortis. The Administrators are currently in preliminary discussions with Fortis as to the precise terms upon which they may wish to sell the Fortis Funded Loans to Fortis, in order to realise value for KBFC and its creditors, and to reduce the administrative burden upon KBFC in collecting out this loan book.

**Statutory Matters**

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

In accordance with the Company Directors Disqualification Act 1986, we have performed a review of the conduct of KBFC's directors and have submitted our report to the Department for Business, Enterprise and Regulatory Reform.

**Receipts and Payments Account**

I enclose a receipts and payments account for the period from 15 October 2008 to 14 April 2009. This does not reflect estimated future realisations or costs.

### **Joint Administrators' Remuneration and Disbursements**

The Administrators' remuneration was fixed on a time-cost basis by a resolution of the creditors Committee passed on 11 February 2009. To date the Administrators have incurred time costs of £483,992 excluding VAT, against which the sum of £471,811.66 including VAT has been drawn. An analysis of the time spent is attached as Appendix 2 to this report. At Appendix 3 there is a statement of the Administrators' policy in relation to charging time and disbursements.

To date, the sum of £617.27 has been drawn in respect of disbursements, as recorded in the abstract of receipt and payments at Appendix 1. There is an analysis of Category 2 disbursements (ie, those disbursements paid to the Joint Administrators' firm) at Appendix 2.

### **Secured Creditors**

As discussed above, KBFC have granted a floating charge in favour of Fortis against certain of KBFC's loan assets. The Administrators are currently in preliminary discussions with Fortis as to the precise terms upon which they may wish to sell the Fortis Funded Loans to Fortis.

### **Preferential Creditors**

All employees were employed by KBFC's parent Heritable Bank Plc (In Administration) ("Heritable"). Accordingly there will be no preferential claims in the administration.

### **Non-preferential Creditors**

#### ***Intercompany***

The directors' Statement of Affairs, as circulated with the Proposals, detailed an intercompany claim from Heritable of £49,240,681.

Following a review of Heritable's records, the administrators of Heritable have now submitted a claim of £48,976,122 in the administration of KBFC. This represents c. 97% of the unsecured claims in the administration of KBFC.

### **Customers**

As above, a number of creditors have claims against KBFC in respect of Customer Instalments (detailed above). To date, claims totalling £384,107 have been received from 66 creditors. As per KBFC records, we are yet to receive claims totalling £462,606 from a further 66 creditors. Within these amounts £437,804 relate to set-off claims. All claims remain subject to formal adjudication.

**Other creditors**

To date, claims totalling £2,535 have been received from 8 creditors. We are yet to receive claims totalling £12,570 from 6 creditors as identified in the directors' Statement of Affairs. All claims remain subject to formal adjudication.

**The Prescribed Part**

The Prescribed Part is a portion 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.

As discussed above, the charge granted in favour of Fortis is a floating charge and accordingly the Prescribed Part will apply. Due to the quantum of assets the subject of Fortis' floating charge, it is likely that the Prescribed Part will amount to the maximum statutory value of £600,000.

**Distributions to Creditors**

The Administrators continue to monitor receipts during the run off period. Based upon present information, it is projected that total returns to unsecured creditors may be in the region of 75 to 85 pence in the pound.

Please be aware that this is an estimate only and is subject to a number of factors. Ultimately, the return to creditors may be significantly higher or lower than the range of values provided in this report. Accordingly, these estimated returns remain provisional, subject to change and must be treated with caution – and must not be treated or relied on by creditors as definitive.

Since significant sums have already been recovered, the Administrators made an application to the Registrar for permission to make distributions to unsecured creditors. The hearing took place on 22 April 2009, and permission was granted to make both initial and future distributions. The Administrators estimate that, upon making an interim distribution, an initial dividend of at least 50 pence in the pound will be payable to non preferential, unsecured creditors with agreed claims. It is the present intention of the Administrators to make such an interim distribution around June 2009.

**Future conduct**

The current book value of loans in KBFC's loan book (excluding loans charged to Fortis) is c. £17m (including arrears), of which c. £10m is due to be paid by 14 October 2009 (being the end of the first year of the administration).

The remaining loans are due to run off over various periods, the longest being over the next five years. The Administrators are therefore considering options to realise the loan book over a shorter time frame in order to expedite the return of funds to unsecured creditors, whilst being mindful of not diminishing the total quantum of returns to creditors unnecessarily.

The Administrators will continue to consult with the Creditors' Committee in respect of key strategy decisions.

I will report to you again at the conclusion of the Administration or in six months' time, whichever is the sooner.

Yours faithfully  
for Key Business Finance Corporation Plc (In Administration)



AR Bloom  
Joint Administrator

Enc: Joint Administrators' Receipts and Payments Account  
Summary of Joint Administrators' Time-Costs and Category 2 Disbursements  
Joint Administrators' Policy on Fees and Disbursements

The Institute of Chartered Accountants in England and Wales authorises AR Bloom and ME 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, AR Bloom and ME Mills, who act as agents of the Company only and without personal liability.

## Appendix 1

### Key Business Finance Corporation plc (In Administration)

#### Joint Administrators' Abstract of Receipts and Payments from 15 October 2008 to 14 April 2009

|                                   | 15 October 2008 to<br>20 November 2008<br>£ | Movement from 21<br>November 2008 to 14<br>April 2009<br>£ | Balance as at<br>14 April 2009<br>£ |
|-----------------------------------|---|--|-------------------------------------|
| <b>Receipts</b>                   |   |  |                                     |
| Loan Repayment                    | 548,600                                     | 31,612,977   | 32,161,577                          |
| Settlement                        | -   | 129,026  | 129,026                             |
| Sundry                            | -   | 9  | 9                                   |
| Loan Repayment (Fortis)           | -   | 1,639,875  | 1,639,875                           |
| Settlement Payment (Fortis)       | -   | 8,573  | 8,573                               |
| Transfer from Pre appointment a/c | -   | 2,239,277  | 2,239,277                           |
| Proceeds of Fee Funding Sale      | -   | 380,979  | 380,979                             |
| Bank Interest                     | -   | 29,773   | 29,773                              |
| Bank Interest (Fortis)            | -   | 710  | 710                                 |
|                                   | <u>548,600</u>                              | <u>36,041,200</u>  | <u>36,589,800</u>                   |

#### Payments

|                                |                |                   |                   |
|--------------------------------|----------------|-------------------|-------------------|
| Rent                           | -              | 13,892            | 13,892            |
| Legal Disbursements            | -              | 343               | 343               |
| Legal Fees                     | 16,300         | 182,862           | 199,162           |
| Purchase Orders                | -              | 39,170            | 39,170            |
| Statutory Advertising          | -              | 1,417             | 1,417             |
| Sale of Fee Funding Book       | -              | 30,339            | 30,339            |
| Sundry Expenses                | -              | 3,160             | 3,160             |
| Administrators Fees            | -              | 471,812           | 471,812           |
| Administrators Expenses        | -              | 617               | 617               |
| Direct Debit Indemnity Claims  | -              | 48,849            | 48,849            |
| Refund of Overpayment          | -              | 29,469            | 29,469            |
| Refund of Overpayment (Fortis) | -              | 5,963             | 5,963             |
| Bank Charges                   | -              | 74                | 74                |
| Bank Charges (Fortis)          | -              | 20                | 20                |
|                                | <u>16,300</u>  | <u>827,987</u>    | <u>844,287</u>    |
|                                | <u>532,300</u> | <u>35,213,214</u> | <u>35,745,514</u> |

#### Represented By

|                                 |                |                   |                   |
|---------------------------------|----------------|-------------------|-------------------|
| HSBC Current Account - Fortis   | -              | 120,006           | 120,006           |
| RBOS Current Account            | 532,300        | 1,227,119         | 1,759,419         |
| HSBC Current Account            | -              | 2,342,919         | 2,342,919         |
| RBOS - Current Account - Fortis | -              | 1,523,170         | 1,523,170         |
| RBOS - 1 Month Money Market     | -              | 30,000,000        | 30,000,000        |
|                                 | <u>532,300</u> | <u>35,213,214</u> | <u>35,745,514</u> |

## Appendix 2

### Key Business Finance Corporation plc (In Administration)

#### Summary of Joint Administrators' Time-Costs and Category 2 Disbursements from 15 October 2008 to 14 April 2009

| Classification of work function | Partner      | Executive<br>Director | Senior<br>Manager | Manager       | Senior        | Staff         | Total Hours     | Total Time<br>Costs<br>£ | Average<br>Hourly Rate<br>£ |
|---------------------------------|--------------|-----------------------|-------------------|---------------|---------------|---------------|-----------------|--------------------------|-----------------------------|
| Accounting & Administration     | 0.00         | 0.00                  | 0.00              | 7.50          | 14.30         | 267.90        | 289.70          | 54,780.50                | 189.09                      |
| Bank & Statutory Reporting      | 0.00         | 0.00                  | 14.00             | 3.20          | 13.40         | 12.50         | 43.10           | 13,088.00                | 303.67                      |
| Creditors                       | 2.20         | 0.00                  | 13.50             | 73.80         | 70.40         | 78.00         | 237.90          | 64,942.33                | 272.98                      |
| Debtors                         | 0.00         | 0.00                  | 0.00              | 15.50         | 0.50          | 0.00          | 16.00           | 5,712.50                 | 357.03                      |
| Employee Matters                | 0.00         | 0.00                  | 0.00              | 0.00          | 2.50          | 0.00          | 2.50            | 662.50                   | 265.00                      |
| Investigations & CDDA           | 0.00         | 0.00                  | 0.00              | 0.00          | 12.50         | 0.00          | 12.50           | 2,562.50                 | 205.00                      |
| Legal Issues                    | 0.00         | 0.00                  | 0.00              | 1.00          | 0.00          | 0.00          | 1.00            | 360.00                   | 360.00                      |
| Other Assets                    | 1.50         | 0.00                  | 5.00              | 0.00          | 0.00          | 0.00          | 6.50            | 3,500.00                 | 538.46                      |
| Public Relations Issues         | 0.00         | 0.00                  | 0.00              | 1.00          | 0.00          | 0.00          | 1.00            | 360.00                   | 360.00                      |
| Sale Process                    | 18.50        | 90.00                 | 115.00            | 85.50         | 109.00        | 28.50         | 446.50          | 209,386.67               | 468.95                      |
| Statutory Duties                | 0.00         | 0.00                  | 15.50             | 0.00          | 38.00         | 1.00          | 54.50           | 15,950.00                | 292.66                      |
| Trading                         | 4.20         | 0.00                  | 30.50             | 121.00        | 203.40        | 30.00         | 389.10          | 112,400.00               | 288.87                      |
| VAT & Taxation                  | 0.00         | 0.00                  | 0.00              | 0.00          | 1.40          | 0.00          | 1.40            | 287.00                   | 205.00                      |
| <b>Total</b>                    | <b>26.40</b> | <b>90.00</b>          | <b>193.50</b>     | <b>308.50</b> | <b>465.40</b> | <b>417.90</b> | <b>1,501.70</b> | <b>483,992.00</b>        |                             |

#### Category 2 Disbursements

There are no Category 2 disbursements.

**Key Business Finance Corporation plc (In Administration)*****Office Holders' Charging Policy for Fees***

The Creditors' Committee has determined that the Administrators' remuneration should be fixed on the basis of time properly spent by the Administrators and their staff in attending to matters arising in the Administration.

The Administrators have engaged a manager and other staff to work on the cases. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by cashiers dealing with the company's bank accounts and statutory compliance diaries, secretaries providing typing and other support services and filing clerks. 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.

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

Statement of Insolvency Practice No. 9 ("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.

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 Creditors' Committee 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.