

TO ALL KNOWN CREDITORS

27 July 2012

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

Direct line: 020 7951 4683

email: sdosa@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 April 2012 to 30 June 2012 and should be read in conjunction with the Administrators’ proposals dated 20 November 2008 (the “Proposals”) and the Administrators’ previous progress reports dated 17 April 2009, 13 August 2009, 14 January 2010, 30 April 2010, 11 August 2010, 10 November 2010 (the “November 2010 Report”), 10 February 2011 (the “February 2011 Report”), 11 May 2011 (the “May 2011 Report”), 10 August 2011 (the “August 2011 Report”), 4 November 2011 (the “November 2011 Report”), 10 February 2012 (the “February 2012 Report”) and 2 May 2012 (the “May 2012 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.

The Administrators propose to apply to the Court of Session in Scotland for a further extension to the Administration for a period of five years. The Administrators consider that a period of five years is a realistic timescale within which the Administration might be concluded. The reasons for the proposed application for an extension are:

- a) to allow sufficient time for the ongoing litigation with LIHF (discussed at paragraph 9.4.1) to proceed to a conclusion; and
- b) to permit the Administrators to continue their strategy of running-off the residential mortgage loan book in the medium term, in advance of an eventual sale of the loan book in due course.

There remain in excess of 1,700 mortgage loans in the Company's portfolio with an aggregate value of £265.0 million. The Administrators consider that it is currently in the best interests of creditors that the existing strategy of running off the portfolio be maintained for the time being.

Any creditor who wishes to object to the proposed extension to the Administration is invited to intimate that objection in writing to the Joint Administrators of Heritable Bank plc, c/o Ernst & Young LLP, 1 More London Place, London SE1 2AF no later than 5pm on 31 August 2012.

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 eleven accounting periods. With the consent of the Company's creditors' committee, the twelfth accounting period ended on 30 June 2012.

Summary of progress since the May 2012 Report

1. Deposits

1.1 Potential trust claims

The trust settlement between the Company, the Administrators, the Financial Services Compensation Scheme, KCC and Barclays was concluded on 22 March 2012. The necessary payments required under the Settlement Deed have been made by the Administrators.

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 £330.1 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 £41.1 million following a transfer of more complex STLB accounts from the residential mortgage loan book to SPF, a write back of £4.6 million of impairments and also additional litigation receipts of £8.0 million.

As we previously reported, in January 2012 the Administrators received an offer from the management of the SPF book to acquire the majority of the SPF and STLB loan books and this offer was subsequently accepted. The sale of the remainder of the SPF and STLB loan books, with the exception of four loans was completed on 13 April 2012 and generated net receipts of £12.2 million.

Net cash receipts totalled £371.2 million as at 30 June 2012. This comprised of 296 loan redemptions and other capital receipts of £509.0 million and interest and fees of £16.0 million (less work in progress draw-downs of £111.3 million and less payments to Landsbanki Guernsey Limited (in Administration) of £42.4 million). The number of loans outstanding had decreased from 351 to four loans, and a sum £1.5 million has been set aside to fund work in progress payments for ongoing development projects as at 30 June 2012.

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.

Following the completion of the sale of the SPF loan book, only one borrower group remains that requires a combined approach. There has been a single payment since the May 2012 report in the sum of £0.9 million, with payments to LBG since the date of Administration totalling £44.0 million. Such payments comprise of £42.0 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 £265.0 million (net of impairments) as at 30 June 2012. Creditors should be aware that £58.5 million of the overall £411.0 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 June 2012, including interest collections and capital repayments, total £404.7 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”).

As at 30 June 2012, HCP had one loan outstanding to Neptune (Ealing Road) LLP (“Neptune”). In addition, the Company has three loans outstanding to HCP in relation to Swaylands, which is owned by HCP.

In relation to Swaylands, the sale of all units within the development has been completed and receipts have been sufficient to allow HCP to repay the capital balance of its loan (in relation to this project) to the Company in full. HCP remains liable to carry out remedial works to the development including the re-roofing of Swaylands House. As previously reported, these works are estimated to cost c. £1.5 million and should be completed by Autumn 2012.

The sale of the Neptune, Alperton site completed in May 2012 and generated net sales proceeds of £9.6 million, representing an uplift of £1.8 million on the previous net anticipated capital receipts of £7.8 million. The full net proceeds due from the sale of the Alperton (Neptune) site were payable to the Company under its senior debt facility.

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

Following a sale of the remaining loan book to Aldermore Bank Plc on 2 March 2010 for a consideration of £23.0 million, which represented a return on the remaining book of 83.0 pence in the pound, HAF was subsequently dissolved on 13 September 2011.

HAF made an overall return to creditors of 95.4 pence in the pound, of which the Company received a total of £71.5 million.

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 £69,729 have been settled 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

Following the closure of the trading office at 8 Hill Street, London on 23 June 2012, the final member of staff was made redundant. There are now no remaining members of staff employed by the Company.

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 June 2012. This does not reflect estimated future realisations or costs.

To date, receipts total £1,089.4 million. Cash at bank as at 30 June 2012 was £35.1 million after total payments of £1,054.3 million.

For the period 1 April 2012 to 30 June 2012, receipts totalled £35.4 million and payments totalled £43.9 million (substantially comprising payments made to creditors in respect of the eleventh interim dividend).

Please note that a twelfth interim dividend of c. 2.9 pence in the pound, totalling £31.8 million, was paid on 19 July 2012 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 £24.2 million (including VAT) against which the sum of £23.2 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 £54,335 (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. £1,002.9 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	£8,150,595
In House and Pending Accounts – not paid by FSCS	£641,097
Landsbanki Guernsey	£34,347,647
Wholesale Deposits – not paid by FSCS	£414,943,788
Wholesale Deposits – FSCS	£490,324
Trade Creditors	£1,352,617
Employees	£1,623,815
RPO	£119,041
Settlement of Trust	<u>(£6,977,773)</u>
	<u>£1,002,884,338</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 £1.3 million for the purposes of the twelfth interim dividend (claims of £1.3 million were admitted for the eleventh 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 twelfth interim dividend totalled £1.6 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 20 October 2011, LIHF was granted leave to appeal the decision of the Inner House of the Court of Session (the Scottish appeal court) on the preliminary issue to the Supreme Court as part of the ongoing litigation between the Company and LIHF. The preliminary issue is 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 is decisive for the purposes of the Company's Scottish Administration.

The Inner House found in favour of the Company on the preliminary issue, and held that the decision of the Winding-up Board of LIHF does not have effect for the purposes of the Company's Administration.

The hearing of LIHF's appeal to the Supreme Court will take place on 4 and 5 February 2013. The parties will need to file a number of documents at court closer to the date of the hearing.

The Administrators shall report further on developments 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 filed for dissolution on 13 September 2011 and HAF has now been dissolved.

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

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;
- (ix) a ninth interim dividend of c. 4.2 pence in the pound in an amount of £42.2 million on 18 October 2011;
- (x) a tenth interim dividend of c. 3.3 pence in the pound in an amount of £33.5 million on 18 January 2012;
- (xi) an eleventh interim dividend of c. 3.8 pence in the pound in an amount of £38.0 million on 18 April 2012; and

xii) a twelfth interim dividend of c. 2.9 pence in the pound in an amount of £31.8 million on 19 July 2012.

The Administrators intend to declare a thirteenth interim dividend in January 2013. The quantum of this dividend remains subject to the continued collection of funds through a run-off of the various loan books. The twelfth dividend has been made in accordance with the scheme of division included in Appendix 4 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 twelfth interim dividend
Form 2.20B (Scot)

The Insolvency Practitioners Association in the UK authorises Patrick Joseph Brazzill to act as an Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986 and the Institute of Chartered Accountants of Scotland in the UK authorises 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 June 2012

	Balance as at 31 March 2012	Movement from 1 April 2012 to 30 June 2012	Balance as at 30 June 2012
	£	£	£
Receipts			
SPF Interest	11,987,736	956,552	12,944,289
Mortgage Receipts	88,088,497	5,232,689	93,321,186
Sundry	23,322	-	23,322
Mortgage Redemptions	298,929,561	12,228,952	311,158,514
Funds from Aldermore Bank	158,062	-	158,062
SPF Loan Book Sale	-	6,313,208	6,313,208
SPF Plot Sale	481,440,554	9,802,088	491,242,642
SPF Capital Reduction	11,506,782	487,253	11,994,035
Post Appointment VAT refund	1,242,669	10,783	1,253,452
Receipts from ING	936,752	-	936,752
Refund of Cash Ratio from BOE	597,406	-	597,406
Financing	113,995	-	113,995
Bank Interest	745,741	28,769	774,510
Dividends From Subsidiaries	118,942,499	322,400	119,264,899
Intercompany Recharges	5,523,462	-	5,523,462
Cash at Bank	49,689	-	49,689
Bawag Loan	20,000,000	-	20,000,000
Dividends Received From Related Parties	7,550	-	7,550
Settlement from Trust Account	6,977,774	-	6,977,774
Transfer from Direct Debit indemnity	92,187	-	92,187
Transfer from Euro account	4,507,365	-	4,507,365
Transfer from Claims Reserve	2,172,970	-	2,172,970
	<u>1,054,044,574</u>	<u>35,382,695</u>	<u>1,089,427,269</u>
Payments			
Direct Labour	12,067	-	12,067
Pension	978,949	21,595	1,000,545
Net Wages	7,117,360	304,559	7,421,919
Employees NIC Reimbursement / NIC	21,643	-	21,643
Employee Life Insurance	11,795	-	11,795
RML Other	70,744	-	70,744
Professional Fees	255,216	-	255,216
Scottish Lodgement Fee	15	-	15
Refund of overpayment	144,482	-	144,482
Business Rates	1,879,820	76,957	1,956,777
Repayment of post-appointment receipts	52,859	-	52,859
Employee Expenses	30,536	1,739	32,275
Sundry Expenses	456,469	-	456,469
Bank Charges and Interest	56,283	1,329	57,611
Administrators Fees	21,609,913	1,579,779	23,189,692
Administrators Disbursements	54,355	-	54,355
Legal Disbursements	72,298	-	72,298
Legal Fees	10,182,136	433,501	10,615,637
Loans to Subs	620	-	620
SPF - Legal	1,525,679	65,892	1,591,571
Purchase Orders/Trade Suppliers	7,890,092	821,972	8,712,064
SPF Drawdown	97,718,087	690,843	98,408,930
RML Drawdown	2,699,594	-	2,699,594
HCP Drawdown	656,757	410	657,167
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	70,511,441	-	70,511,441
Payments on behalf of HCP	10,818,751	849,602	11,668,353
Direct Debit Indemnity Claims	69,729	-	69,729
Insurance	452,857	-	452,857
PAYE	5,128,234	2,430	5,130,664
Transfer to HSBC DD Cash Collateral A/c	146,412	-	146,412
Newcastle building society	670,025	-	670,025
Payments to Landsbanki Guernsey	43,149,897	862,122	44,012,019
VAT Payment	1,844,170	-	1,844,170
Distribution to preferential creditors	36,564	-	36,564
First distribution to unsecured creditors	163,195,292	-	163,195,292
Second distribution to unsecured creditors	127,732,167	-	127,732,167
Third distribution to unsecured creditors	62,482,199	-	62,482,199
Fourth distribution to unsecured creditors	63,317,833	-	63,317,833
Catch up payments for previous dividends	233,579	78,934	312,513
Fifth distribution to unsecured creditors	41,752,900	-	41,752,900
Sixth distribution to unsecured creditors	47,610,416	-	47,610,416
Seventh distribution to unsecured creditors	63,111,769	-	63,111,769
Eighth distribution to unsecured creditors	45,566,040	-	45,566,040
Ninth distribution to unsecured creditors	42,203,781	-	42,203,781
Tenth distribution to unsecured creditors	36,752,651	-	36,752,651
Eleventh distribution to unsecured creditors	0	37,370,617	37,370,617
Oakwood Management Fee	5,513,068	747,290	6,260,358
Assignment of VAT Liability	128,165	-	128,165
Petty Cash	13,800	200	14,000
Property Surrender Payment	228,000	-	228,000
HMRC taxnic deductions re emp dividend	68,819	13,232	82,051
	<u>1,010,423,435</u>	<u>43,923,004</u>	<u>1,054,346,439</u>
	<u>43,621,140</u>	<u>(8,540,309)</u>	<u>35,080,830</u>
Represented By:			
Royal Bank of Scotland	10,499,023	(4,103,343)	6,395,680
Santander	6,840,687	(2,695,950)	4,144,737
HBOS	6,894,075	(2,497,964)	4,396,110
HSBC Current Account	5,294,727	2,880,828	8,175,555
HSBC - SPF account	14,092,628	(2,123,880)	11,968,748
DD Cash Collateral Account	-	-	-
Euro current account	-	-	-
	<u>43,621,140</u>	<u>(8,540,310)</u>	<u>35,080,830</u>

Appendix 2

Heritable Bank Plc (In Administration)

Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 30 June 2012

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	266.20	16.40	865.40	1,145.50	3,672.40	7,770.80	13,736.70	260.59	£3,579,601.73
Creditors and Debtors	249.20	25.60	307.60	1,333.50	2,926.40	2,241.70	7,084.00	248.61	£1,761,142.57
Employee Matters	42.70	-	166.20	83.50	629.20	39.80	961.40	326.49	£313,884.04
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	93.00	2.50	16.00	5.00	54.50	64.60	235.60	395.24	£93,118.56
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	375.40	374.40	1,272.30	1,530.80	1,477.10	412.40	5,442.40	425.42	£2,315,306.30
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	44.80	1.50	182.50	668.50	516.00	219.30	1,632.60	328.98	£537,096.97
Retention of Title	1.50	-	1.10	-	5.50	-	8.10	356.36	£2,886.50
Sale Process	63.80	123.00	80.50	134.00	606.00	55.00	1,062.30	407.44	£432,825.87
Structured Property Finance	657.30	865.80	5,073.70	3,676.80	8,093.10	1,489.00	19,855.70	423.22	£8,403,380.43
Steps pre-appointment	12.00	4.00	15.00	-	-	-	31.00	567.42	£17,590.00
Trading	4.00	-	391.40	1,611.20	1,232.20	514.40	3,753.20	315.05	£1,182,463.04
VAT & Taxation	103.90	229.40	521.60	473.10	882.00	237.90	2,447.90	522.88	£1,279,946.41
Wholesale Depositors	-	-	-	-	25.60	40.00	65.60	103.41	£6,784.00
Grand Total	1,950.40	1,779.40	9,794.10	10,891.40	20,334.30	13,138.90	57,888.50	356.89	£20,660,033.20

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 2011/2012	Standard Rates for M&A 2011/2012
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 Twelfth Interim Dividend as at 30 June 2012

	£	£
Balance of Receipts and Payments account		35,080,830.40
Balance of Reserve account		82,692,692.61
<u>Provisions for Estimated Payments</u>		
Administrators’ fees (unbilled April, May and June 2012)	937,399.87	
Administrators’ fees (forecast for 3 months)	347,773.91	
Legal costs (unbilled and forecast for 3 months)	241,000.00	
Trading costs (forecast for 3 months)	1,025,205.81	
SPF drawdowns	600,000.00	
Catch up dividend payments	100,312.08	
		<hr/>
		(3,261,691.66)
Provision for potential payments in respect of first, second, third, fourth, fifth, sixth, seventh, eighth, ninth, tenth, eleventh and twelfth interim dividends		(82,692,692.61)
Balance available for twelfth interim dividend to unsecured creditors		31,819,138.74
Provision for potential payments in respect of twelfth interim dividend ¹		(3,230,566.49)
		<hr/>
Dividend payable for twelfth dividend to unsecured creditors		28,588,572.25

The estimated sum of £31,819,138.74 represents a dividend of c. 2.85 pence in the pound to unsecured creditors whose claims total £1,002,884,337.87.

¹ Breakdown set out below

Provision for potential payments in respect of twelfth interim dividend:

	Note	£	£
Trade Creditors	1		220,358.06
<u>Claims submitted by Landsbanki (each as defined below):</u>			
RCF Claim	2	85,985,378.60	
MPA Claim	3	17,122,221.92	
Guarantee Claim	4	0.00	
Subordinated Debt Claim	5	0.00	
			<hr/>
			103,327,958.58
General Provision	6		10,000,000.00
			<hr/>
Total Provisions			113,327,958.58
			<hr/>
Dividend of 2.85p/£			3,230,566.49

Notes:

1. This relates to the claims of creditors included in the Statement of Affairs who have not yet submitted a claim in the Administration.
2. 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.
3. 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.
4. 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.
5. 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.
6. The Administrators have made a general provision of £10 million for any unknown potential claims.

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

Name of Company Heritable Bank Plc (In Administration)	Company number SC000717
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(a) Insert full name(s) I / We (a) Alan Robert Bloom, Patrick Joseph Brazzill, Margaret Elizabeth Mills and Thomas Merchant Burton
and address(es) of
administrator(s) 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 April 2012</u>	(b) <u>30 June 2012</u>

Signed



Joint Administrator

Dated

2 August 2012

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

Shivam Dosa	
Ernst & Young LLP, 1 More London Place, London SE1 2AF	
	Tel: 0207 951 4683
DX Number:	DX Exchange:

Companies House receipt date
barcode

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

DX 235 Edinburgh / LP 4 Edinburgh-2