ERNST & YOUNG

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

Tel: 020 7951 2000
Fax: 020 7951 1345
www.ey.com/uk

TO ALL KNOWN CREDITORS

17 April 2009

Ref: LO3465/AB/DM/JZ/PF16.1
Direct line: 0207 9517166

email: jzia@uk.ey.com

Dear Sirs

Heritable Bank Plc (In Administration)

Court of Session number P1684/08

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

I write, in accordance with Rule 2.38 of the Insolvency (Scotland) Rules 1986, to provide creditors with a report on the progress of the administration. This report covers the period from 7 October 2008 to 6 April 2009 and should be read in conjunction with the Joint Administrators' proposals, dated 20 November 2008 (the "Proposals").

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

Summary of progress since last report

1. Deposits

1.1 Retail deposits transferred to ING

As detailed in the Proposals, pursuant to the Heritable Bank plc Transfer of Certain Rights and Liabilities Order 2008 (the "First Order") and the Transfer of Rights and Liabilities to ING Order 2008 (the "Second Order" and, together with the First Order, the "Transfer Orders"), on the 8 October 2008, the majority (c. 25,300) of Heritable's retail deposit accounts were transferred to ING Direct N.V. ("ING"). The balance of the retail deposit accounts that transferred to ING was c. £547m.

As specified in the Transfer Orders, for a period commencing on the date of the administration (7 October 2008) until 8 April 2009 (the "Transitional Period"), the Administrators were obliged to perform their functions with the following objectives (the "Overriding Objectives"):

a. ensuring that Heritable provides, and managing the affairs, business and property of Heritable to enable it to provide, the services and facilities reasonably required by ING to carry on its functions in relation to the transferred rights and liabilities (as defined in the First Order); and

b. ensuring that Heritable performs the other obligations imposed on it by or under the First Order.

Following the expiry of the Transitional Period, the Administrators are obliged to perform their functions in accordance with paragraph 3 of Schedule B1 to the Act, with the objective of achieving a better result for Heritable's creditors as a whole than would be likely if Heritable were wound up (without first being in administration).

ING have not been able to migrate the operation of the transferred accounts from Heritable to their systems during the Transitional Period. As a result, an agreement has been made with ING to extend the terms of the Transitional Services Agreement dated 8 October 2008 ("TSA") for an additional period, terminating on 31 May 2009. The extension has been granted on the basis that the costs reasonably incurred by Heritable in continuing to provide assistance in relation to the operation of the transferred accounts will continue to be reimbursed by ING and will not, in effect, be borne by the creditors of Heritable.

To date, all reasonably incurred costs in relation to providing assistance in relation to the operation of the transferred accounts on behalf of ING, pending their migration, have been paid by ING.

1.2 In House Accounts and Pending Accounts

Savings accounts in respect of which an account opening application form had been received but not processed in full when Heritable went into administration ("Pending Accounts"), and a small number of retail deposit accounts which were not managed by Newcastle Building Society or operated through Heritable's clearing account with Barclays Bank plc ("In-House Accounts"), did not transfer to ING.

The Financial Services Compensation Scheme (the "FSCS") has now agreed to compensate these customers in full, with the exception of those specifically excluded under the compensation scheme rules, and has written to those customers to explain how to make a claim for compensation.

As at the date of administration, there were 285 customers with a Pending Account with total deposit balances of £6.6m. There were 137 customers with an In-House account, with total deposit balances of £2.9m. To date the FSCS have provided compensation of c. £8m out of a total £9.5m.

1.3 Potential Trust Claims

As outlined in the Proposals, the Administrators have been investigating the extent to which sums received by Heritable prior to the administration and funds held in certain bank accounts may be subject to trust claims.

At the request of the Administrators, the Financial Services Authority ("FSA") has recently lifted confidentiality provisions contained in and relating to the documents giving rise to such potential trust claims. The Administrators have now published a statement on the Heritable website (http://www.heritable.co.uk/aboutheritablebank/news/) to inform creditors of the work that they have been doing in relation to these issues. Creditors are advised to refer to the above webpage for further details. Updates will appear from time to time when there are further developments to report.

The Administrators intend to make an application to the Companies Court for a determination as to who is entitled to the monies in the relevant accounts and are in the course of contacting the parties that they consider may be affected. It is likely that only the FSCS, ING and a limited number of customers who made deposits through Heritable's HSBC clearing account on or after 2 October 2008 will be able to argue that they may be beneficiaries of any trust and may have a proprietary right to the monies in the relevant accounts. Customers who made deposits through Heritable's clearing account with Barclays Bank plc had their deposits and accounts transferred to ING and therefore now have rights against ING, or were otherwise compensated by the FSCS.

The administrators intend to appear at the court hearing to argue the case for Heritable's unsecured creditors (i.e. to argue, to the extent appropriate, that there are no proprietary rights in the monies in the relevant accounts and that they are therefore part of the estate of Heritable, available to be distributed to Heritable's creditors in due course).

2. Heritable books of business

2.1 Structured Property Finance ("SPF")

2.1.1 Sales Process Update

As stated in the Proposals, the Administrators were preparing the SPF loan book to be marketed for sale. Based on the Administrators' market knowledge, 52 bidders were approached, of which 39 subsequently signed confidentiality agreements.

Sanitised data on the mortgage book and an information memorandum were sent to selected bidders, providing them with sufficient information to submit an indicative offer subject to further due diligence. On 17 November 2008, indicative offers were received from 17 bidders.

Three of the indicative offers were assessed to be strong enough to continue with a phase of limited due diligence. The three preferred bidders were provided with an extended data tape and access to a virtual data room containing documentation in relation to the loan books, and in particular detailed information on the top 10 borrower groups and a sample of 15 smaller loans. Final bids were received from the three bidders on 22 December 2008.

In parallel to the sales process, the Administrators prepared a run-off model to evaluate and analyse expected recoveries in the event of a run-off to expiry of the book. A base case scenario was prepared, as well as a stressed case scenario and an optimistic case scenario.

The final bids were significantly lower than the indicative offers, the base case and the stressed case run-off model. On this basis it was decided with the agreement of the Heritable creditors' committee (the "Committee") to terminate the sales process and continue with a run-off strategy on the basis that the market is likely to be tested at a later date when economic conditions are more favourable.

2.1.2 Run-off update and recovery strategy

Net cash receipts (excluding Lansbanki Guernsey related receipts and payments) since the appointment of the Administrators totalled £27.1m at 6 April 2009 and comprise the redemption of 34 loans equating to £42.7m, other receipts of £0.3m, interest of £2.4m and draw-downs of £18.3m.

Since the circulation of the Proposals, the number of loans outstanding has decreased from 269 to 225 loans (to 113 borrower groups), with total committed facilities of £480.1m and drawn commitments of £429.8m. Included in the 225 loans are 18 fully sub-participated loans (to 12 borrower groups) with £28.4m of committed facilities and £23.7m drawn to date.

The largest 25 borrower groups account for c. £416.8m (87%) of the total committed facilities and c. £295m (69%) of drawn commitments to date.

A recovery strategy has been determined for each of the 113 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 book as well as collecting interest and repayments on existing loans. In the cases where the Administrators have decided that to continue to support the borrower is not likely to maximise value, a Law of Property Act (LPA) receiver has been appointed. To date an LPA receiver has been appointed in relation to four loans with a total committed value of £4.5m. A further five appointments with a total committed value of £5.4m are expected within the next two weeks.

There are currently 68 loans with an aggregate drawn value of £73m, which are either partially or fully secured against completed stock with an aggregate value of £116.9m. The administrators are actively pursuing completion of any exchanged contracts in relation to this stock and sales or refinancing of any unsold units.

2.1.3 Short Term Loan Book

As stated in the Proposals, part of the residential mortgage book was transferred to the SPF business. The assets transferred comprised mainly residential developments similar to the SPF book. All 60 of these loans have been reviewed in detail and are managed on the same basis as the SPF book.

2.2 Loan Facility with BAWAG P.S.K. Aktiengesellschaft ("BAWAG")

Due to the fact that Heritable was not able to collect payments from its customers through Direct Debits at the start of the administration, and due to the uncertainty as to how and when payments would be restored, the Administrators considered that there was a risk that there would be insufficient funds available to continue to make further advances to SPF customers as required in order to maximise overall recoveries.

As a result, external funding was sought in order to service drawdowns for the SPF book.

On 27 October 2008, Heritable was granted a loan facility of £20,000,000 by BAWAG to provide funding specifically for the purpose of making further advances in the SPF book.

Due to general credit market restrictions on providing new lending (particularly in the last quarter of 2008) and also due to the fact that Heritable was in administration, the loan was subject to a high rate of interest and fees.

The key terms of the facility are as follows:

- An arrangement fee of £1m was paid to BAWAG;
- Interest on the facility is payable monthly and is charged at the aggregate rate of 14% + LIBOR;
- The loan, together with interest and fees, will be repaid in full on the earlier of (i) 26 October 2009 and (ii) the business day before the end of the administration;
- Heritable may elect to cancel the facility and prepay the loan on 27 April 2009 ("the Interim Repayment Date");
- A prepayment premium of £1m is due if the loan is paid on the Interim Repayment Date, or if the loan is not repaid on the Interim Repayment Date, an extension fee of £1m is payable;
- All costs associated with the loan facility constitute expenses of the administration.

The Administrators have determined that they no longer require the facility and have elected to repay the loan on the Interim Repayment Date of 27 April 2009.

To date the Administrators have paid interest of c. £1.4m in addition to the arrangement fee.

2.3 Guernsey Loan Book

We continue to work collaboratively with Landsbanki Guernsey Limited (in administration) ("LBG") to assist them in the recovery of a number of sub-participated loans. To facilitate this we have legally assigned security over a first tranche of five fully sub-participated loans, and we are currently working to legally assign security relating to a further six fully sub participated loans. The objective of this was to reduce the time spent liaising between the two organisations to ensure the administrations operate efficiently by enabling LBG to take direct action where they wish to enforce security arrangements.

We continue to have regular update calls and meetings with LBG as a result of which we have established a protocol to manage loans that have been fully sub-participated or partially sub-participated. To date we have recovered in excess of £10.4m for LBG through Heritable negotiated settlements with borrowers. The £10.4m comprises £8.9m of capital receipts and £1.5m of interest. To date we have paid c. £10.2m to LBG.

2.4 Residential Mortgages ("RM")

As previously reported, and as discussed at the meeting of creditors on 9 December 2008 (the "Creditors Meeting"), the Administrators continued to collect out the mortgage book whilst a purchaser for the loan book was sought. Following enquiries from a number of interested parties, as well as having approached a number of known parties who might have been interested, initial offers were received and have been compared to the projected returns from run-off scenarios.

The offers received were significantly lower than even the more conservative estimates from run-off scenarios. Although the loan book would run off over many years, and so a sale of the book will have to be secured at some point, we considered (and the Committee agreed) that best value would not be achieved by a sale in the current market.

Therefore, the strategy as approved by the Committee, is to run off the book until market conditions improve or until such a time as the Administrators consider that a sale of the book would be preferable to continuing the run-off in reference to the best interests of the creditors as a whole. Based on present information, a significant improvement in market conditions is not considered likely until the second half of 2010.

The loan book has currently reduced to c. £659m from c. £690m on appointment. Receipts to date, including interest collections and redemptions, total c. c. £54.6m. You will note from the Receipt and Payments account (Appendix 1) that post appointment RM drawdowns of £1.3m have been made in relation to the Short Term Loan Book as discussed above in section 2.1.3.

Daily operation of the RM loan book currently remains with Heritable's staff, under the supervision of the Administrators. However, as the loan book is expected to be in run-off for at least the next 12-18 months, the Administrators are negotiating with third party suppliers to outsource operations with a view to improving the arrears and litigation management, enhance redemptions, and better prepare the book for a future sale.

Since the Creditors Meeting, the RM staff, under the supervision of the Administrators, have been working to recover arrears from customers whose mortgage payments were not taken due to the disruption to Direct Debits (see Customer Collections below). Most mortgages affected by this issue have been successfully brought back into line, with many other borrowers seeking to make an arrangement to spread the collection of these arrears over a period of time. Such arrangements are being monitored with only a small minority of cases requiring legal action to be considered.

Overall, although arrears levels are higher than they were prior to the administration, they have stabilised. Reductions in Heritable's standard variable rate following the various reductions in the Bank of England's base rate have assisted in this.

Heritable have also offered certain incentives to borrowers to remortgage in order to accelerate the run-off of the book. However, it is still apparent that the absence of available funding is hindering customers in their ability to refinance with alternative lenders. Much of the loan book relates to buy-to-let, or self-certification mortgages, which typically would be amongst the last to benefit from any increased liquidity in the market. However, there has been some recent improvement with redemption levels having increased over last few weeks, following the roll-out of these incentives.

3. Subsidiary Lines Companies

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

HCP is a 99% subsidiary of Eagle Property Trust Limited, which is a 99% subsidiary of Heritable. The remaining 1% of each company is held by Heritable Nominees Limited (a 100% subsidiary of Heritable). HCP makes equity investments in real estate projects. It has invested equity in a number of joint ventures where Heritable has also provided debt facilities.

HCP entered administration on 15 October 2008 and AR Bloom and TM Burton were appointed to act as joint administrators (the "HCP Administrators"). The appointment was made under the provisions of paragraph 22 of Schedule B1 to the Act.

At the date of Heritable's administration, HCP had an intercompany liability to Heritable of c. £24.1m. This is the vast majority of HCP's creditor balance, with other creditors totalling c. £500k.

As stated in the Proposals, the Administrators and the HCP Administrators have reviewed HCP's exposure to its major projects and met with the joint venture partners.

There are currently six HCP loans, including the two separate loans relating to the development at Swaylands, Kent.

It is likely that these loans may take several years to unwind and the return to Heritable in respect of its inter-company exposure remains uncertain.

3.2 Heritable Asset Finance ("HAF")

HAF is a 100% subsidiary of Heritable which provides small asset based finance and hire purchase loans.

HAF entered administration on 15 October 2008 and AR Bloom and ME Mills were appointed to act as joint administrators (the "HAF Administrators"). The appointment was made under the provisions of paragraph 22 of Schedule B1 to the Act.

The vast majority of HAF's creditor balance consists of an intercompany liability to Heritable of c. £75m. Other creditors consist of c. £114k of trade creditors.

As detailed in the Proposals, discussions were held with interested parties to explore the value that could be achieved through a sale of the business. Eleven bidders were sent an information memorandum and data tape containing relevant information on the loan book. Indicative offers from six parties were received on 29 October 2008 and all parties were invited to perform further due diligence. Following this, five revised offers were received on 14 November 2008. Further discussions were held with two parties but it was felt that greater value could be achieved through a run-off of the loan book.

The loan book is performing well in the current economic conditions. Collections at the end of March were £15.9m (including interest) and remain ahead of forecast.

As discussed in the Proposals, Heritable and its subsidiaries experienced disruptions in their ability to collect repayments by Direct Debit immediately after the commencement of Heritable's administration. This led to an accumulation of arrears of c. £7.3m.

Direct Debit collections were fully resumed in February 2009 and arrears have now been significantly reduced to c. £3.2m at the end of March 2009. We expect the majority of arrears to be collected by the end of June 2009 when we have finished our arrears collection process. At present, we are collecting 2 payments per month from borrowers, one of which is to cover arrears.

Since significant sums have already been recovered, the HAF Administrators have made an application to the Registrar for permission to make distributions to unsecured creditors. Depending on the outcome of the hearing (scheduled for 22 April 2009), the HAF Administrators estimate that an initial dividend will be payable in June 2009 to creditors of HAF.

Any such dividend that will be paid to Heritable in respect of its intercompany claim would then contribute to the assets which Heritable will in turn be seeking to distribute to its unsecured creditors.

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.

3.3 Key Business Finance Ltd ("KBF") and Key Business Finance Corporation Plc ("KBFC")

These two companies are 100% subsidiaries of Heritable and provide financing to professional practices.

Both companies entered administration on 15 October 2008 and AR Bloom and ME Mills were appointed to act as joint administrators (the "KBFC Administrators"). The appointments were made under the provisions of paragraph 22 of Schedule B1 to the Act.

Heritable has an intercompany claim of £49.0m against KBFC. This represents c. 97% of the unsecured claims in the administration of KBFC and represents a significant asset to be recovered for the benefit of Heritable's creditors.

As set out in the Proposals, market interest for the KBFC loan book was low, and accordingly the decision was taken to place the loan book into run-off. The terms of KBFC loans 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.

On appointment of the Administrators, the loan book amounted to c. £57.9m. This has already reduced to c. £26.1m (including arrears) at the end of March 2009. C. £6.9m of the loan book at appointment is subject to a charge in favour of Fortis Lease (UK) Limited ("Fortis"), which provided the funding to KBFC for these loans (the "Fortis Funded Loans").

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.

Collections to 6 April 2009 total £31m in relation to non charged assets and £1.7m in relation to assets subject to Fortis' floating charge.

As stated in the Proposals, Heritable and its subsidiaries 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. £5.3m at the end of March 2009.

Included within the arrears position are a number of customers who are also creditors by virtue of having advanced initial instalments on other loans that have not subsequently completed. The KBFC Administrators have been advised that customers have no right of set-off at the present time. However, the KBFC Administrators recognise that mandatory insolvency set-off would apply at the time of a distribution to unsecured creditors. Accordingly, it has been proposed that customers make payment to KBFC only in respect of amounts due over and above the amounts potentially subject to set-off.

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.

Other significant developments include the sale of the fee funding loan book and ongoing discussions with Fortis regarding the possible transfer to them of the Fortis Funded Loans.

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 the majority of the rest 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 KBFC Administrators, as well as the uncertain and likely limited recovery from any future sale as part of the remaining rump of KBFC loans.

Discussions with Fortis regarding the sale of the Fortis Funded Loans are still at a relatively early stage. The KBFC Administrators currently await details from Fortis as to the precise terms upon which they would wish to make such a transfer.

Since significant sums have already been recovered, the KBFC Administrators have made an application to the Registrar for permission to make distributions to unsecured creditors. Depending on the outcome of the hearing (scheduled for 22 April 2009), the KBFC Administrators estimate that an initial dividend will be payable in June 2009 to creditors of KBFC.

Any such dividend that will be paid to Heritable in respect of its intercompany claim would then contribute to the assets which Heritable will in turn be seeking to distribute to its unsecured creditors.

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.

4. Customer Collections

The Proposals explained that HSBC Bank plc ("HSBC") had ceased to operate Heritable's bank accounts following its administration, resulting in an inability to collect customer payments by Direct Debit.

Since then the Administrators have negotiated and agreed with HSBC the terms upon which HSBC is willing to continue acting as the sponsor of Heritable and certain of its subsidiaries as

Direct Debit originators. Heritable and certain of its subsidiaries have now been readmitted into the Direct Debit Scheme.

The first Direct Debit collections were received on 22 December 2008, being c. £0.5m in respect of Heritable and £0.5m in respect of HAF.

The key terms of the agreement with HSBC were:

- £1.96m of monies held in the HSBC pre-appointment account of Heritable, together with an additional £40k (total £2m), will be held as collateral by HSBC against any claims brought against it in respect of its previous and continuing sponsorship of Direct Debits originated by Heritable.

- £250k of monies held in the HSBC pre-appointment account of HAF will be held for the same purpose in relation to Direct Debits originated by HAF.

- The monies will be held as collateral until Heritable and HAF cease direct debit collections sponsored by HSBC, at which point the Administrators and HSBC will agree upon a mechanism to cover any ongoing liabilities from having acted as sponsor to Heritable and HAF. Any excess cash collateral held by HSBC would then be released to the Administrators.

- All claims brought by HSBC and other BACS sponsor banks against Heritable and/or HAF during the period of their administrations, arising from Direct Debits originated prior to the commencement of their administrations, will be treated as an expense of their respective administrations.

- All claims brought by HSBC against Heritable and/or HAF in respect of their previous and ongoing sponsorship in the Direct Debit scheme will be treated as an expense of the Administration. As a result of the ongoing nature of this administration expenses liability, a final agreement will need to be reached between the parties as to the extent and quantum of HSBC's claims before any final distribution can be made to the creditors. To date, payments totalling c. £11k have been made in respect of Heritable and c. £49k in respect of HAF.

- The Administrators have paid £5k to HSBC as an arrangement fee for setting up the cash collateral accounts and c. £81k + VAT to HSBC to cover their legal costs incurred in their negotiation with the Administrators.

- A total of c. £3.35m of monies held in HSBC pre-appointment accounts for HAF (£1.1m) and KBFC (£2.25m) has been released to the Administrators of those companies.

At the date that these arrangements with HSBC were finalised, the inability to collect Direct Debits had resulted in c. £9m of interest payments due from Heritable's customers being uncollected and a further c. £20m (HAF c. £7.5m and KBFC c. £12.5m) of interest and capital repayments due from the customers of the subsidiary companies. The above arrangements with HSBC to allow Heritable and HAF to continue to collect payments by Direct Debit therefore enabled this significant backlog of arrears to be cleared.

The ability to collect these amounts and all future amounts by Direct Debits was vital, and so whilst the funds held by HSBC and the direct costs related to the agreement with HSBC are significant, the Administrators felt it was in the best interests of the creditors to accept the terms available to them.

5. Landsbanki Creditor Guarantees

As set out in the Proposals, it appears that guarantees were executed by Heritable's Icelandic parent, Landsbanki Islands Hf ("LIHF"), in 2003 and 2004 in respect of Heritable's liabilities to its creditors. LIHF is presently subject to an Icelandic moratorium process and a Resolution Committee has been appointed to manage its affairs. A copy of the 2004 guarantee was included as an appendix to the Proposals.

The Administrators have now published a statement on the Heritable website (http://www.heritable.co.uk/aboutheritablebank/news/) to provide further information to creditors about these guarantees and to make available to creditors a copy of the 2003 guarantee (as well as a further copy of the 2004 guarantee, for ease of reference).

As advised previously, under the terms of the 2004 guarantee, LIHF is entitled to terminate its liability thereunder by giving at least three months' notice to Heritable and Heritable depositors. LIHF has recently served on Heritable a notice of termination, a copy of which can be found on the above website.

As set out in the notice, the effective termination date of the 2004 guarantee is 3 July 2009. Creditors should refer to the above website for further details but should note that, under the terms of the 2004 Guarantee, its termination will not affect claims by Heritable creditors against LIHF under the guarantee in respect of liabilities of Heritable which arise prior to the effective termination date. The termination notice also makes no reference to the 2003 guarantee.

Creditors should note that neither Heritable nor the Administrators are providing any advice or assuming any responsibility to creditors in connection with the guarantees or claims thereunder and creditors should consider taking their own advice, and such action, as they consider to be necessary.

Notwithstanding this important point, the Administrators have discussed with the Resolution Committee of LIHF whether any steps can be taken to streamline the process for the submission of claims under the guarantees. The Resolution Committee have advised that they consider that it would be inappropriate to enter into any formal arrangement at the present time but that they are willing to co-operate on an informal basis with the Administrators and may revisit arrangements in due course.

Heritable and the Administrators give no assurances as to whether any claims by creditors under the guarantees will be accepted by LIHF. In addition, as stated, LIHF is subject to an

Icelandic moratorium process. As such, even if creditors' claims are accepted, no assurances can be given as to the timing and amount of any distribution.

6. Employees

At the date of administration, Heritable employed 125 staff (previously reported as 123). By the time that the Proposals were produced, Heritable had made 54 staff redundant (previously reported as 52); 12 staff had been identified for redundancy prior to the administration, 7 staff resigned voluntarily and a further 35 were made redundant following a review of the business.

Since the Proposals were circulated, a further 5 employees have resigned and 2 employees have retired. Heritable have made a further 4 employees redundant, including the Chief Executive Officer, Mark Sismey-Durrant and the Chief Financial Officer, Ketan Malde. Both have been retained on a part-time consultancy basis.

There is a retention plan in place for remaining employees based upon their service line. We will periodically review the headcount and consider whether any further redundancies are appropriate.

7. Statutory Matters

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

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

8. Receipts and payments account

I enclose a receipts and payments account for the period from 7 October 2008 to 6 April 2009. This does not reflect estimated future realisations or costs.

To date receipts total £134,177,491.

Cash at 6 April is £88,025,776 after total payments of £46,151,715.

9. Joint Administrators' remuneration and disbursements

The Administrators' remuneration was fixed on a time-cost basis by a resolution of the Committee passed on 22 December 2008. To date, the Administrators have incurred time costs of £6,648,641 against which the sum of £6,418,948 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 £10,481 has been drawn in respect of disbursements, as recorded in the abstract of receipt and payments at Appendix 1.

10. Creditors

10.1 Secured creditors

There are no secured creditors.

10.2 Preferential creditors

Preferential creditors relate to payments to employees and are currently estimated to be c. £23,800 and will be paid in full.

To date, no payment has been made to the preferential creditors.

10.3 Non-preferential creditors

10.3.1 Retail Deposits

The transfer of the majority of Heritable's retail deposit book to ING was funded by HMT and the FSCS. As a result, pursuant to the Transfer Orders, they have a claim against Heritable for c. £547m in total.

10.3.2 In House Account and Pending Accounts

As described above, the FSCS have agreed to provide compensation to those customers that did not transfer to ING (Pending Accounts and In-House Accounts), with the exception of those specifically excluded from the scheme rules. To date the FSCS has provided compensation of c. £8m out of a total Pending Account and In-House Account balance of £9.5m. The FSCS will have an unsecured claim against Heritable, arising by the assignment of or subrogation to customers' claims against Heritable.

Of the total Pending Account and In-House Account balance of £9.5m, we have been made aware of certain customers who are specifically excluded from the scheme rules. The balance of those specifically excluded from the scheme rules to date is c. £300k. These customers will rank as unsecured creditors of Heritable.

10.3.3 Wholesale Deposits

Wholesale deposits comprise non-retail fixed term deposits placed through money market brokers. Wholesale depositors largely consist of local government councils and universities. As a consequence of the administration, wholesale deposits have been frozen at the date of the administration and depositors constitute unsecured creditors.

At the date of administration, there were 103 wholesale depositors with an aggregate deposit balance of £416,565,214, reflecting a principal balance of £410,667,694 and accrued interest of £5,897,520. Statements reflecting the principal balance and accrued interest were sent to depositors on 11 February 2009. To date, we have received confirmation of agreement to the values on those statements from 101 depositors relating to principal balances totalling £403,133,613.

On an ad hoc basis, the Administrators hold an update meeting with an informal steering committee of certain local authorities. The Administrators provide them with updates as to the progress of the administration without assuming any obligation to do so or liability in respect of information provided.

10.3.4 Other Creditors

To date, we have received claims of £983,980 from other unsecured creditors (estimated to be £712,119 in the Statement of Affairs). These relate to amounts due to wholesale brokers and trade suppliers. We are currently in the process of adjudicating upon these claims but do not expect to receive any substantial claims from trade suppliers in the future.

The non preferential element of employees' claims is estimated to be £1,685,903.

10.4 Intercompany Claims

The details of intercompany loan facilities that existed between Heritable and LIHF, and between Heritable and its subsidiaries, were provided in our first report. We have now reviewed Heritable's records to ascertain the intercompany indebtedness, which is as set out below:

10.4.1 Intercompany liabilities

LIHF is owed a sum of c. £86m (made up of £81m and €6m) under a £400m facility agreement with LIHF. It is also owed an additional £50m which was drawn down under a subordinated loan agreement of 13 August 2001. This latter amount is subordinated to all other liabilities of Heritable. We have received a claim from LIHF for the above amounts.

LIHF has also submitted a contingent claim of £1,011,817,245 in respect of their liabilities under the 2004 guarantee mentioned above. To the extent that LIHF has a right of indemnity from Heritable in respect of such liabilities, this claim is contingent upon all potential creditors of Heritable claiming against LIHF under the guarantee and, pursuant to the terms of the 2004 guarantee, all such liabilities having been paid and discharged in full.

10.4.2 Intercompany receivables

As per the records of Heritable, intercompany receivables are made up of the following balances with subsidiaries:

Key Business Finance Corporation Plc	£48,976,122
Key Business Finance Ltd	£97,226
Heritable Asset Finance Ltd	£75,012,312
Heritable Capital Partners Ltd	£24,095,925
	£148,181,585

A claim has been submitted by Heritable in the administration of the respective subsidiaries as a creditor for the above amounts. It is anticipated that a material dividend will be received from both KBFC and HAF. It is considered that it is likely that a dividend will be received in due course from HCP. However, HCP's investments are in large complicated joint venture developments that will take considerable time to unwind. As a result, it is not possible to provide a realistic estimate as to the quantum or timing of a dividend at this stage.

The Administrators are currently investigating claims which Heritable may have against LIHF, including in respect of sums arising from the close-out of certain interest rate swap transactions entered into between the parties, management fees accrued in respect of the administration of Icesave on behalf of LIHF and potential claims arising out of sub-participations of loans to LIHF.

11. Distributions to Creditors

In the absence of any secured creditors, and any material preferential claims, the Administrators estimate that there will be a material dividend payable to unsecured non preferential creditors of Heritable.

As explained in this report, Heritable's loan books and the loan books of Heritable's subsidiaries are currently in run-off. The Administrators have considered a number of scenarios for the run-off periods, including run-off periods lasting through to the end of 2010, 2011 and 2012. The Administrators have also considered the projected receipts and payments during the run-off periods (including the level of costs of the administration) and the potential timing of and proceeds from a sale of any residual loan assets following the run-off periods. Conservative estimates have been used for calculating any such proceeds.

Based on present information, the Administrators' projections indicate a base case return to creditors of between 70-80 pence in the pound. The Administrators have estimated that the return to creditors improves where the book is run-off over a longer time period (i.e. 70pence return through to end of 2010 and 80 pence return through to end of 2012).

The base case includes cautious assumptions in respect of a number of overriding factors that will influence these projections, including interest rates, the housing market and the wider economic environment as a whole. It is recognised that these are impossible to predict over long periods with any significant degree of confidence or accuracy. Any or all these factors could impact the return to creditors to the extent that it may be significantly higher or lower than the range of values provided in this report.

If conditions improve over this period of time it is possible that the final recovery could be higher than the base case above. In addition, we have also sensitised our base case to reflect a more adverse set of circumstances which provides an estimated stressed case return of 55-70 pence in the pound.

For the reasons above, 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.

The Administrators are currently aiming to declare a first dividend of c. 15 pence in the pound to unsecured non preferential creditors with agreed claims during late July / early August 2009. The precise timing and quantum of this dividend remains subject to the Administrators obtaining court permission to make such a distribution as well as the adjudication of claims and the receipt of funds via dividends from the administrations of KBFC and HAF.

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

Yours faithfully
For Heritable Bank 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 Insolvency Practitioners Association authorises Patrick Joseph Brazzill to act as an Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986 and the Institute of Chartered Accountants of Scotland authorises Thomas Merchant Burton to act as an Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986. The Institute of Chartered Accountants in England and Wales authorises 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 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 6 April 2009

	7 October 2008 to 19 November 2008 £	Movement from 20 November 2008 to 6 April 2009 £	Balance as at 6 April 2009 £
Receipts			
SPF Interest	723,407	2,962,230	3,685,637
Mortgage Receipts	460,430	18,097,216	18,557,646
Sundry	34,497	102,413	136,910
Mortgage Redemptions	7,613,257	28,400,103	36,013,360
SPF Drawdown Facility	20,000,000	0	20,000,000
Unallocated Receipts	0	3,306	3,306
Funds due to Heritable Asset Finance	3,976	271,359	275,335
SPF Plot Sale	4,152,280	46,824,317	50,976,597
SPF Capital Reduction	0	862,435	862,435
Receipts from ING	0	588,439	588,439
Refund of Cash Ratio from BOE	0	597,406	597,406
Financing	113,995	0	113,995
Bank Interest	8,256	160,335	168,591
	33,110,098	**98,869,559**	**131,979,657**
Payments			
Direct Labour	11,395	672	12,067
Pension	73,854	208,299	282,154
Net Wages	340,832	1,095,683	1,436,515
Employees NIC Reimbursement	0	11,455	11,455
Employee Life Insurance	0	8,479	8,479
RML Other	1,174	4,641	5,815
Professional Fees	0	3,872	3,872
Scottish Lodgement Fee	15	0	15
Refund of overpayment	0	1,066	1,066
Business Rates	0	77,748	77,748
Repayment of post-appointement receipts	0	42,000	42,000
Employee Expenses	9,293	2,858	12,151
Sundry Expenses	4,285	42,796	47,081
Bank Charges and Interest	1,449	11,888	13,336
Administrators Fees	0	6,418,948	6,418,948
Administrators Disbursements	0	10,481	10,481
Legal Disbursements	0	38,855	38,855
Legal Fees	634,666	1,370,501	2,005,167
Loans to Subs	2,440	620	3,060
SPF - Legal	34,851	219,341	254,192
Purchase Orders/Trade Suppliers	14,642	1,362,318	1,376,960
SPF - Drawdowns	4,292,376	14,018,614	18,310,989
RML Drawdown	66,357	1,265,845	1,332,203
Ransom Payments - Trade/Legal	192,744	80,336	273,080
RML- Legal	0	72,600	72,600
Bawag Loan Interest	0	1,434,864	1,434,864
Bawag Loan fee	1,000,000	0	1,000,000
Payments on behalf of HCP	967	354,852	355,819
Direct Debit Indemnity Claims	0	10,775	10,775
Insurance	0	97,545	97,545
PAYE	180,645	620,426	801,070
Transfer to HSBC DD Cash Collateral A/c	0	126,152	126,152
Payments to Landsbanki Guernesey	0	10,177,351	10,177,351
	6,861,985	**39,191,882**	**46,053,866**
	26,248,113	**59,677,678**	**85,925,791**
Represented By:			
Bank of England NIB Current A/c	65,957	-60,000	5,957
Royal Bank of Scotland	26,178,447	-15,496,106	10,682,341
HSBC Current Account	3,709	5,233,784	5,237,493
RBOS Money Market - 2 Wks	0	20,000,000	20,000,000
RBOS Money Market 1 Month	0	50,000,000	50,000,000
	26,248,113	**59,677,678**	**85,925,791**

Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 6 April 2009 for HSBC DD Cash Collateral Account

	7 October 2008 to 19 November 2008 £	Movement from 20 November 2008 to 6 April 2009 £	Balance as at 6 April 2009 £
Receipts			
SPF Interest	0	111,682	111,682
	0	**111,682**	**111,682**
Payments			
Bank Charges	0	8	8
	0	**8**	**8**
	0	**111,674**	**111,674**
Represented By:			
HSBC Euro Account	**0**	**111,674**	**111,674**

Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 6 April 2009 for HSBC Euro Account

	7 October 2008 to 19 November 2008 £	Movement from 20 November 2008 to 6 April 2009 £	Balance as at 6 April 2009 £
Receipts			
Cash at Bank	1,960,000	0	1,960,000
Transfer from Administration Account	0	126,152	126,152
	1,960,000	**126,152**	**2,086,152**
Payments			
Direct Debit Refunds	0	654	654
Legal Fees	0	92,187	92,187
Bank Facility Fee	0	5,000	5,000
	0	**97,841**	**97,841**
	1,960,000	**28,311**	**1,988,311**
Represented By:			
HSBC Current Account	**1,960,000**	**28,311**	**1,988,311**

Notes

Certain balances included above have been re-stated since issuing the Proposals on 20 November 2008. Figures have been re-stated on the following basis:

1. Receipts and payments are stated gross of VAT. Figures included in the receipts and payments account in our first report were stated net of VAT. Figures have also been reclassified since issuing our first report due to the fact that VAT is mostly irrecoverable due to Heritable's status as a Bank.

2. Heritable has received £588,438.89 from ING. This represents the re-charge of all reasonably incurred direct costs of providing the Services required to achieve the overriding purpose of the Administration of transferring the Retail Deposit Book to ING for the period from October 2008 to January 2009. The February invoice of £97,015 has been approved and we await payment shortly.

3. Sundry costs have been reallocated to more specific categories.

4. The BAWAG loan is shown gross in receipts with a payment of £1m for the arrangement fee.

5. Other general reallocations have been made to provide creditors with greater clarity as to the nature of those particular receipts and payments.

Appendix 2

Heritable Bank Plc (In Administration)

Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 6 April 2009.

Classification of work function	Partner	Executive Director	Senior Manager	Manager	Senior	Staff	Total Hours	Total Time Costs	Average Hourly Rate
Accounting & Administration	43.20	6.00	228.40	328.30	258.20	1766.70	2630.80	661,033.00	£207.24
Bank & Statutory Reporting	44.80	1.50	180.00	14.20	64.20	46.30	351.00	151,111.00	£413.59
Creditors	107.50	0.00	196.20	155.20	355.40	739.80	1554.10	440,562.00	£243.67
Employee Matters	31.80	0.00	128.70	15.00	129.20	21.50	326.20	128,206.00	£371.69
FSA/BoE Reporting	5.50	0.00	74.30	55.00	76.50	0.00	211.30	81,354.50	£380.29
Investigations	1.50	0.00	13.50	3.50	17.00	0.00	35.50	12,410.00	£119.08
Legal Issues	18.00	1.00	15.50	0.00	0.00	3.00	37.50	21,265.00	£550.13
Other Assets	0.00	0.00	2.00	73.00	20.80	16.00	111.80	38,437.00	£343.80
Public Relations	5.60	4.00	6.00	3.00	0.00	0.00	18.60	8,260.00	£444.09
Residential Mortgage	61.00	193.00	347.60	656.30	795.10	271.50	2324.50	882,609.00	£322.20
Outsourcing Residential Mortgage Book	0.00	0.00	505.00	5.50	39.00	0.00	549.50	150,000.00	£272.98
Retail Book	24.50	0.00	179.50	545.50	458.70	211.50	1419.70	463,320.50	£299.90
Retention of Title	1.50	0.00	1.10	0.00	5.50	0.00	8.10	2,886.50	£356.36
Sale Process	46.50	43.00	53.00	74.50	195.50	38.50	451.00	192,932.50	£426.16
SPF	219.00	788.10	1036.20	1341.20	2006.50	219.50	5610.50	2,470,682.50	£354.57
Statutory Duties	27.80	0.00	77.80	6.00	46.70	31.00	189.30	76,060.00	£376.22
Steps pre-appointment	11.00	4.00	15.00	0.00	0.00	0.00	30.00	17,590.00	£586.33
Trading	0.50	0.00	367.30	176.70	606.50	449.50	1600.50	480,634.00	£282.76
VAT & Taxation	54.90	66.80	205.00	143.50	63.60	40.80	574.60	355,703.00	£561.11
Wholesale Depositors	0.00	0.00	0.00	0.00	25.60	40.00	65.60	13,584.00	£207.07
Grand Total	**704.60**	**1,107.40**	**3,632.10**	**3,596.40**	**5,164.00**	**3,895.60**	**18,100.10**	**6,648,640.50**	**£367.33**

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 2008/2009	Standard Rates for M&A 2007/2008
Partner	700	765
Director	635	670
Assistant Director	490	590
Senior Executive	360	-
Executive	265	330
Assistant Executive	205	-
Client Service Associate	195	-
Analyst	170	170
Business Trainee	145	-

Appendix 3

Heritable Bank Plc (In Administration)

Office Holders' Charging Policy for Fees

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 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 executive 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 ("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.