

TO ALL KNOWN CREDITORS

13 August 2009

Ref: MLP7E/AB/IM/VS/LO3465/PF16.1

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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 (the "Rules"), to provide creditors with a report on the progress of the administration. This report covers the period from 7 April 2009 to 17 July 2009 and should be read in conjunction with the Administrators' proposals, dated 20 November 2008 (the "Proposals") and the Administrators' progress report dated 17 April 2009 (the "April Report").

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.

Under the Rules, a progress report must be sent to creditors within six weeks after the end of each accounting period, which are usually every six month periods commenting on the administrators' appointment. However, in order to enable the payment of a dividend before 31 July 2009 (dividends can only be declared and paid in respect of accounting periods which have ended), an application was made to the Court of Session to shorten the second accounting period so as to end on 17 July 2009.

Summary of progress since the April Report**1. Deposits****1.1 Retail deposits transferred to ING**

Since the April Report, the retail deposit accounts that were transferred to ING Direct N.V. ("ING") pursuant to the Heritable Bank plc Transfer of Certain Rights and Liabilities Order 2008



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and the Transfer of Rights and Liabilities to ING Order 2008 (the “Transfer Orders”) have now been fully migrated from Heritable systems.

The variable rate products were migrated to ING systems over the weekend of 30 May 2009 in line with the Transitional Services Agreement dated 8 October 2008 (as subsequently amended). The fixed rate products will continue to be operated by Newcastle Building Society (“NBS”), who previously operated the accounts for Heritable, on behalf of ING.

All reasonably incurred costs of the Administrators in relation to providing assistance in respect of the operation of the accounts have been paid by ING.

Following the migration of the transferred accounts, the Heritable account with Barclays Bank plc (“Barclays”) that was used as the clearing account in respect of those accounts has now been closed with the agreement of both ING and Barclays.

1.2 In-House Accounts and Pending Accounts

As previously reported, 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 NBS or operated through Heritable’s clearing account with Barclays (“In-House Accounts”), did not transfer to ING.

The position remains as per the April Report, save that the Financial Services Compensation Scheme (the “FSCS”) has now provided compensation of c. £8.07m in respect of the £9.5m aggregate deposit balances of Pending Accounts and In-House Accounts as at the date of the administration.

Those customers who are not eligible for compensation under the FSCS Compensation Scheme rules have been admitted as unsecured creditors in the administration.

1.3 Potential Trust Claims

As outlined in the April Report, the Administrators have been investigating the extent to which certain sums received by Heritable prior to the administration and funds held in certain bank accounts may be subject to trust claims. 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. Further background information in relation to such claims and the work that has been undertaken by the Administrators in this regard can be found on the Heritable website (<http://www.heritable.co.uk/abouttheritablebank/news/>).

Since the April Report, further consideration has been given to jurisdictional issues relating to the application. As Heritable is a Scottish company, the Administrators have been advised that they will need to make a preliminary application to the Court of Session in Scotland for a determination that the issues are governed by English law and for a request to be made to the English court to hear the application on the substantive trust issues.

Further, Scottish counsel has advised that a substantive matter of Scottish law will also need to be determined in the preliminary application, namely whether the purported creation of a trust amounted to an unfair preference which, if effective, should be set aside (in which case the monies in the relevant accounts would form part of the unsecured estate of Heritable, available to be distributed to Heritable's creditors in due course).

As reported previously, it is likely that only a limited number of parties will be able to argue that they are beneficiaries of any trust and may have a proprietary right to the monies in the relevant accounts. The Administrators are in discussions with affected parties in order to determine whether they wish to appear in the preliminary proceedings, which the Administrators hope to be heard in the Court of Session in the next few months.

2. Heritable books of business

2.1 Structured Property Finance (“SPF”) Loan Book

As previously reported, it was decided to run off the SPF loan book and to test the market for a potential sale at a later date when economic conditions were more favourable.

2.1.1 Run-off update and recovery strategy

Net cash receipts (excluding receipts and payments relating to LBG (defined below)) since the appointment of the Administrators totalled £55.9m as at 17 July 2009, comprising 54 loan redemptions and other receipts of £79.9m, interest receipts of £4.2m less draw-downs of £28.2m.

The number of loans outstanding has decreased from 269 to 215 loans (to 109 borrower groups), with gross drawn commitments of £384m (£308.7 net of provisions). We have recently completed the assignment of security over 11 loans that were either fully or partially assigned to LBG.

The largest 25 borrower groups account for c. £216m (c.56%) of the total gross drawn commitments to date.

A recovery strategy has been determined for each of the 109 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.

Where a borrower has defaulted on their loan and the Administrators have concluded that the continued support of that borrower is not likely to maximise value, a formal demand has been issued and, in a number of cases, a Law of Property Act (“LPA”) receiver has been appointed. To date we have issued formal demands on 45 borrowers and have appointed LPA receivers over 14 of these borrowers.

There are currently 66 loans, with an aggregate drawn value of £75.9m, that are fully secured against completed developments with an aggregate value of £119.5m. The Administrators are actively pursuing the completion of any exchanged contracts in relation to these properties and accelerated sales or refinancing of any unsold units. The total amount received in the previous month relating to completed developments was £7.1m.

2.1.3 Short Term (“ST”) Loan Book

An additional development loan has been transferred to the SPF book of loans since the last report. Net cash receipts in relation to the 61 development loans are £2.5m as at 17 July 2009, comprising loan redemptions and other receipts of £4.3m, less draw-downs of £1.8m.

In addition to the 61 loans referred to above, the SPF team is also assisting the RM team with the implementation of a recovery strategy for 33 buy-to-let loans in Margate.

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

As previously reported, 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 draw-downs for the SPF book. On 27 October 2008, BAWAG agreed to provide a loan facility of £20m specifically for the purpose of making further advances in respect of the SPF book.

This facility was fully repaid on 27 April 2009 (as previously reported, the Administrators had determined that it was no longer required and should be repaid when possible under the terms of the loan).

2.3 Guernsey Loan Book

We continue to work collaboratively with the administrators of Landsbanki Guernsey Limited (In Administration) (“LBG”) to assist them in the recovery of a number of assigned loans. To facilitate this we have completed the assignment of security over the fully assigned loans.

The objective of this was to reduce the time spent liaising between the two organisations to ensure the Administrators operate efficiently, by enabling LBG to take direct action where they wish to enforce security arrangements.

Total payments to LBG since 7 October 2008 total c. £24.5m. This balance comprises £22.6m of capital receipts and £1.9m of interest.

2.4 Residential Mortgages (“RM”)

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

The book value of the loan book on appointment was c. £690m (including c. £64.7m in relation to the ST loan book). This has reduced to c. £582.5m as at 17 July 2009. Creditors should be aware that £58.5m of the overall £107.5m reduction has been as a direct result of certain short term and other complex loans being transferred from the RM division to the SPF team.

Receipts to date, including interest collections and redemptions, total c. £95m. As shown in the Receipt and Payments account (Appendix 1), post-appointment RM draw-downs of £2.2m have been made in relation to the ST loan book.

Certain incentives have been offered to customers, resulting in slight improvements in redemptions. However, it is clear that reduced property values and the lack of available mortgage products on the market are preventing many of Heritable’s borrowers from refinancing with alternative lenders. This is likely to continue to act as a barrier to any rapid run-off of the book for some time to come.

As previously reported, the Administrators have been negotiating with third party suppliers with a view to outsourcing the operation of the RM book in order to improve arrears and litigation management, enhance redemptions and prepare the book for a future sale. A number of suppliers were invited to present their proposals from which a shortlist of three suppliers were identified for further discussions.

Following these discussions, the Administrators are now in advanced contract negotiations with one specific provider. Given the ongoing nature of these negotiations, we are unable to provide further details at this time but a full update should be available in the Administrators’ next report to creditors. The creditors’ committee has been kept fully informed of progress to date.

3. Subsidiary Companies

3.1 Heritable Capital Partners Limited (In Administration) (“HCP”)

Heritable is by far the largest creditor of HCP, being the beneficiary of an intercompany liability of c. £24.1m.

As previously reported, there are six HCP loans, including two separate loans relating to a development at Swaylands, Kent. Whilst progress continues to be made in relation to these loans, there are no material changes to report as at 17 July 2009.

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

The loan book is continuing to perform well in the current economic conditions. Collections as at 17 July were £32.1m (including interest) and remain ahead of forecast. The book value of the loan book is currently c. £46.9m.

As discussed in the April Report, arrears had reduced to £3.2m at the end of March 2009. This figure has reduced further to £1.2m as at 17 July 2009 following the collection exercise in which two payments per month have been collected from borrowers, one of which covers arrears arising from the initial disruption to HAF’s Direct Debit collection facility.

As previously reported, an application was made to the Registrar for permission to make distributions to unsecured creditors. Permission was granted on 22 April 2009 and a distribution was made to unsecured creditors on 1 July 2009 of 34.61 pence in the pound, amounting to £26,046,504 in total. Heritable received a dividend of £25,961,761.

The Administrators are continuing to assess the return to creditors through a continued run-off compared with a sale of the remainder of the book. It is currently anticipated that a sale of the book will be considered after the summer.

3.3 Key Business Finance Limited (In Administration) (“KBFL”) and Key Business Finance Corporation Plc (In Administration) (“KBFC”)

As previously reported, this loan book had been placed into run-off following low offers being received after an initial marketing exercise. This book was due to run off rapidly given the relatively short-term nature of the loans in comparison to other loan books within the Heritable group. The strategy has always been to run off the book until the Administrators are in a position to sell the rump for a favourable amount.

This report refers to the progress of the administration in the period from 6 April to 17 July 2009. However, since 17 July 2009, the Administrators have successfully negotiated the sale of the rump of the loan book (excluding loans subject to a charge in favour of Fortis Lease (UK) Limited (“Fortis”)). The sale completed on 6 August 2009, realising c. £5m for unsecured creditors, with all remaining KBFC employees transferring to the purchasing company.

In addition, the Administrators are in advanced negotiations in relation to the transfer to Fortis of the Fortis charged loans. It is hoped that this transaction will also complete by the end of August 2009. A full update should be available in the Administrators’ next report to creditors.

The book value of the loan book on appointment was c. £57.9m, including £6.9m of loans subject to a floating charge in favour of Fortis. Collections to 17 July 2009 totalled c. £44m, reducing the value of the loan book to c. £13.5m, of which £4.5m were loans subject to the Fortis charge. The book value of the loan book, excluding Fortis charged loans, at completion of their sale was c. £8.3m.

Again, on 22 April 2009, the Registrar granted permission to make distributions to unsecured creditors, following which an initial dividend of 73.96 pence in the pound was paid on 1 July 2009. Heritable received a dividend of £36.2m in respect of its £49.0m claim against KBFC. It

is anticipated that a further dividend will be payable, although the precise timing and quantum of such a dividend is yet to be confirmed.

Subject to the successful completion of the transfer of the Fortis charged loans, and the conclusion of all trading matters, the Administrators do not currently anticipate needing to extend the administrations of KBFC and KBFL beyond the initial 12 month period. The Administrators anticipate bringing an end to the administrations before the anniversary using one of the proposed exit strategies identified in the Proposals. At this stage, it is most likely that KBFC and KBFL will be placed into creditors' voluntary liquidation before paying a final dividend and being dissolved. A total return to creditors of KBFC of c. 90 pence in the pound is anticipated.

4. Customer Collections

In the April Report, creditors were advised that HSBC Bank Plc ("HSBC") had agreed to continue to act as sponsor bank, allowing Heritable and HAF to be readmitted to the Direct Debit scheme. Creditors will recall that the terms of the agreement reached with HSBC provided for funds of £2m to be retained by HSBC as collateral against claims brought against it as a result of its previous and ongoing sponsorship of Heritable. Similarly, funds of £250k were retained by HSBC as collateral against any claims made against it in relation to HAF.

In addition, it was agreed that all claims brought by HSBC and other BACS sponsor banks against Heritable and HAF during the period of their administrations, arising from Direct Debits originated during their administrations, will be treated as an expense of their respective administrations.

To date, claims totalling £2,163 and £2,359 have been settled as an expense of the administrations of Heritable and HAF respectively.

Once the Administrators are in a position to cease trading and bring the administrations to a close, they will need to negotiate a mechanism to cover any ongoing administration expense liabilities of HSBC. Any excess cash collateral held by HSBC will then be released to the Administrators.

5. Landsbanki Creditor Guarantees

As described in the April Report, the Icelandic parent of Heritable, Landsbanki Islands hf ("LIHF"), appears to have executed guarantees in 2003 and 2004 in respect of Heritable's liabilities to its creditors. Further information in respect of these guarantees is included in the April Report and on the Heritable website (<http://www.heritable.co.uk/aboutheritablebank/news/>).

Since the April Report, at the request of the bank's Resolution Committee, a Winding-up Board for Landsbanki has been appointed by the Reykjavik District Court to handle claims against Landsbanki and its eventual winding-up. The Winding-up Board have given notice that they

require creditors to lodge their claims by 30 October 2009 in the manner described on the Landsbanki website:

<http://www.lbi.is/Uploads/document/Handling%20of%20Claims%20against%20Landsbanki%20Islands%20hf.pdf>

Further information on the Icelandic process to which Landsbanki is subject can also be found on the same website.

The Administrators have contacted the Winding-up Board to ascertain whether, following their appointment, the Winding-up Board wish to enter into a formal arrangement with the Administrators to streamline the process for the submission of claims by Heritable creditors under the guarantees. The Winding-up Board have advised, however, that they do not wish to enter into such an arrangement at the present time and would prefer each creditor to submit their claim directly to Landsbanki in accordance with Icelandic procedural requirements.

As previously stated, 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 seek their own advice, and take such action, as they consider necessary.

6. Employees

Since the April Report, a further five employees have resigned and one employee has been made redundant.

Retention plans are in place for the remaining employees based upon their service line. The retention plans for certain service lines were reviewed at the end of April 2009 and further retention plans were put in place. The Administrators intend to 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.

8. Receipts and payments account

I enclose a receipts and payments account for the period from 7 October 2008 to 17 July 2009. This does not reflect estimated future realisations or costs.

To date receipts total £293,952,392.

Cash at 17 July was £193,444,023 after total payments of £100,508,369.

For the period from 7 April to 17 July 2009, receipts total £158,477,097 and payments totalling £54,359,082 were made.

Please note that a dividend of 16.13 pence in the pound, totalling c. £161m, was made on 28 July 2009 as reported below. As such, the 17 July cash balance detailed above has since been reduced by this sum.

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 £8,877,036 (excluding VAT) against which the sum of £7,875,428 (excluding 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 £16,311 (including VAT) 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' claims amount to £34,843.21. This includes a sum of £21,694.86 representing employees' arrears of wages and outstanding holiday pay. The remainder is a claim of £13,148.35 from the Redundancy Payments Office (RPO) relating to payments made to employees by that body in respect of the preferential elements of their claims against Heritable.

We have adjudicated upon preferential claims and a first and final dividend of 100 pence in the pound was paid on 28 July 2009. The amount of the total distribution was £34,843.21.

10.3 Non-preferential creditors

Total non-preferential claims received (excluding those received from Landsbanki, which are dealt with below) were c. £1.009 billion; these claims were adjudicated upon and agreed as set out below:

Retail Deposits - FSCS	£547,062,084
In House and Pending Accounts – FSCS	£8,068,460
In House and Pending Accounts – not paid by FSCS	£557,223
Landsbanki Guernsey	£34,347,647
Wholesale Deposits	£416,565,214
Trade Creditors	£947,567
Employees	£1,320,195
RPO	<u>£62,205</u>
	<u>£1,008,930,595</u>

For the avoidance of doubt c. £296k claims were not admitted at this stage for the purposes of the distribution.

10.3.1 Retail Deposits

As stated in the April Report, 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, the FSCS submitted a claim against Heritable for £547,062,084, which was admitted in full.

10.3.2 In-House Account and Pending Accounts

As described above, the FSCS agreed to provide compensation to those customers whose deposit accounts did not transfer to ING (Pending Accounts and In-House Accounts), with the exception of those specifically excluded by the Compensation Scheme rules. To date, the FSCS has provided compensation of £8,068,460 in respect of aggregate Pending Account and In-House Account balances of c. £9.52m.

The balance of the In-House Accounts excluded under the FSCS Compensation Scheme rules, or in respect of which the FSCS is still reviewing applications for compensation, totals c. £584k. These customers were admitted as unsecured creditors in the administration.

There were further depositors with balances totalling c. £866k to whom Heritable had provided loans and mortgages. Their deposit balances were set off against their loans in accordance with the applicable rules of set-off in the administration.

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. Claims in respect of such deposit balances were admitted in full.

10.3.4 Other Creditors

We received claims of £1,243,929 from other non-preferential creditors (estimated to be £712,119 in the Statement of Affairs). These comprise amounts due to wholesale brokers and trade suppliers. We have agreed claims totalling £947,567 for the first dividend.

10.3.5 Employees

The non-preferential element of employees' claims totalled £1,484,571. This was admitted in full for the first dividend. Certain employees had not, as at the date on which the initial distribution was paid, provided the requisite evidence of their attempts to mitigate their claims, such amounts being deductible from their claims against Heritable and the amount above. The Administrators intend to adjust the amount of the next dividend payable to such employees to reflect these sums in mitigation once the relevant information has been provided.

The RPO claim in respect of payments made to employees in relation to the non-preferential elements of their claims was admitted for £62,205.

10.4 Intercompany Claims

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 dated 13 August 2001. This latter amount is subordinated to all other liabilities of Heritable.

LIHF has submitted a claim for the above amounts. However, no dividend was paid to LIHF in respect of the initial distribution as the Administrators believe there to be certain counter claims by Heritable against LIHF which may be liable to be set off against, and extinguish in whole or

in part, the above claims. These are in respect of (i) sums arising from the close-out of certain interest rate swap transactions entered into between the parties, (ii) management fees accrued in respect of the administration of Icesave by Heritable on behalf of LIHF and (iii) potential debt and/or damages claims stemming from LIHF's failure to advance certain monies on request for the purpose of funding loans in which they had a sub participation.

The Administrators and their solicitors are in dialogue with LIHF and their solicitors in relation to these claims. The Administrators have also reserved in full for the initial dividend otherwise payable to LIHF.

As stated in the April Report, LIHF has also submitted a contingent claim of £1,011,817,245 in respect of their liabilities under the 2004 guarantee mentioned in section 5 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. At this stage we have therefore not admitted this claim.

10.4.2 Intercompany receivables

As per the records of Heritable, intercompany receivables (other than the amounts claimed by Heritable from LIHF) are made up of the following balances with its subsidiaries:

Key Business Finance Corporation Plc	£48,976,122
Heritable Asset Finance Limited	£75,012,312
Heritable Capital Partners Limited	<u>£24,095,925</u>
	<u>£148,084,359</u>

Claims have been submitted by Heritable in the administration of the respective subsidiaries as a creditor for the above amounts.

As stated above, on 1 July 2009, KBFC and HAF declared initial dividends of 73.96 pence in the pound, and 34.61 pence in the pound, respectively. Heritable duly received sums of £36,222,740 and £25,961,761 in respect of its claims against those companies.

11. Distributions to Creditors

Heritable declared and paid a first and final dividend of 100 pence in the pound to preferential creditors, and an initial dividend of 16.13 pence in the pound to unsecured creditors, on 28 July 2009.

The Administrators' projections of a base case return to unsecured creditors of 70-80 pence in the pound remains as reported in the April Report. 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 the next few years, 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 aiming to declare a second dividend of at least 10 pence in the pound to unsecured creditors before the end of the calendar year. The precise timing and quantum of this dividend remains subject to the continued collection of funds via a run-off of the various loan books and, if required, further court permission being obtained to shorten the next accounting period.

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 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 17 July 2009

	7 October 2008 to 6 April 2009	Movement from 7 April 2009 to 17 July 2009	Balance as at 17 July 2009
	£	£	£
Receipts			
SPF Interest	3,690,187	1,235,505	4,925,692
Mortgage Receipts	18,553,970	8,982,116	27,536,086
Sundry	136,910	24,920	161,830
Mortgage Redemptions	37,228,364	29,783,010	67,011,374
SPF Drawdown Facility	20,000,000	-1,103	19,998,898
Unallocated Receipts	3,306	20,326	23,632
Funds due to Heritable Asset Finance	272,300	-268,054	4,247
SPF Plot Sale	51,068,410	52,909,469	103,977,879
SPF Capital Reduction	862,435	212,080	1,074,515
Receipts from ING	588,439	259,490	847,929
Refund of Cash Ratio from BOE	597,406	0	597,406
Financing	113,995	0	113,995
Bank Interest	150,321	152,816	303,137
Dividends From Subsidiaries	0	62,184,501	62,184,501
Recharges	0	2,775,866	2,775,866
Cash at Bank	0	137,042	137,042
	<u>133,266,042</u>	<u>158,407,984</u>	<u>291,674,026</u>
Payments			
Direct Labour	12,067	0	12,067
Pension	282,154	172,525	454,678
Net Wages	1,436,515	1,143,768	2,580,283
Employees NIC Reimbursement	11,455	0	11,455
Employee Life Insurance	8,479	0	8,479
RML Other	5,815	0	5,815
Professional Fees	3,872	10,875	14,747
Scottish Lodgement Fee	15	0	15
Refund of overpayment	1,066	17,684	18,751
Business Rates	77,748	33,849	111,597
Repayment of post-appointment receipts	42,000	10,859	52,859
Employee Expenses	12,151	4,226	16,377
Sundry Expenses	47,081	43,360	90,441
Bank Charges and Interest	13,336	6,961	20,297
Administrators Fees	6,419,779	2,810,294	9,230,073
Administrators Disbursements	9,651	6,740	16,391
Legal Disbursements	38,855	7,711	46,566
Legal Fees	2,005,167	745,562	2,750,728
Loans to Subs	620	0	620
SPF - Legal	254,196	107,548	361,744
Purchase Orders/Trade Suppliers	1,376,960	812,748	2,189,708
SPF Drawdown	18,268,477	8,598,452	26,866,929
RML Drawdown	1,332,203	908,525	2,240,727
Ransom Payments - Trade / Legal	273,080	0	273,080
RML - Legal	72,600	60,633	133,233
Bawag Loan Interest	1,434,864	21,222,842	22,657,706
Bawag Loan fee	1,000,000	0	1,000,000
Payments on behalf of HCP	398,332	1,253,643	1,651,974
Direct Debit Indemnity Claims	10,775	0	10,775
Insurance	97,545	0	97,545
PAYE	801,070	978,592	1,779,662
Transfer to HSBC DD Cash Collateral A/c	126,152	13,852	140,005
Payments to Landsbanki Guernsey	10,177,351	14,363,630	24,540,982
VAT Payment	0	863,350	863,350
	<u>46,051,430</u>	<u>54,198,228</u>	<u>100,249,658</u>
	<u>87,214,612</u>	<u>104,209,757</u>	<u>191,424,369</u>
Represented By:			
Bank of England NIB Current A/c	5,957	-5,957	0
Royal Bank of Scotland	10,662,258	140,555,600	151,217,858
HSBC Current Account	6,546,397	17,060,113	23,606,510
RBOS Money Market - 2 weeks	20,000,000	-6,500,000	13,500,000
RBOS Money Market - 1 Month	50,000,000	-46,900,000	3,100,000
	<u>87,214,612</u>	<u>104,209,757</u>	<u>191,424,369</u>

Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 17 July 2009 for HSBC DD Cash Collateral Account

	7 October 2008 to 6 April 2009 £	Movement from 7 April 2009 to 17 July 2009 £	Balance as at 17 July 2009 £
Receipts			
Cash at Bank	1,960,000	0	1,960,000
Transfer from Administration Account	126,152	13,852	140,005
	<u>2,086,152</u>	<u>13,852</u>	<u>2,100,005</u>
Payments			
Direct Debit Refunds	654	2,163	2,817
Legal Fees	92,187	0	92,187
Bank Facility Fee	5,000	0	5,000
	<u>97,841</u>	<u>2,163</u>	<u>100,005</u>
	<u>1,988,311</u>	<u>11,689</u>	<u>2,000,000</u>
Represented by:			
Current account	1,988,311	11,689	2,000,000
	<u>1,988,311</u>	<u>11,689</u>	<u>2,000,000</u>

Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 17 July 2009 for HSBC Euro Account

	7 October 2008 to 6 April 2009 £	Movement from 7 April 2009 to 17 July 2009 £	Balance as at 17 July 2009 £
Receipts			
SPF interest	122,521	55,261	177,782
SPF capital reduction	579	0	579
	<u>123,100</u>	<u>55,261</u>	<u>178,361</u>
Payments			
Bank charges	15	41	56
Transferred to Sterling account		158,650	158,650
	<u>15</u>	<u>158,691</u>	<u>158,706</u>
	<u>123,084</u>	<u>-103,430</u>	<u>19,655</u>
Represented by:			
Euro current account	123,084	-103,430	19,655
	<u>123,084</u>	<u>-103,430</u>	<u>19,655</u>

Notes

Certain balances included above have been re-stated since issuing the progress report dated 17 April 2009.

Appendix 2

Heritable Bank Plc (In Administration)

Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 17 July 2009.

Classification of work function							Total Hours	Average Hourly Rate (£)	Time costs for period (£)
	Partner	Executive Director	Senior Manager	Manager	Senior	Staff			
Accounting, Administration, Bank & Statutory Reporting / Duties	141.30	7.50	564.00	390.50	538.20	2,701.60	4,343.10	265.73	1,154,099.50
Creditors	115.00	-	266.70	241.20	616.20	1,031.30	2,270.40	270.76	614,730.00
Employee Matters	38.30	-	141.20	22.00	236.50	22.50	460.50	364.47	167,838.50
FSA/BoE Reporting	5.50	-	105.80	75.50	76.50	-	263.30	395.63	104,169.50
Investigations	2.00	-	13.50	3.50	17.00	-	36.00	354.44	12,760.00
Legal Issues	22.00	1.00	15.50	-	-	3.00	41.50	579.88	24,065.00
Other Assets	1.00	-	6.00	73.00	20.80	16.00	116.80	351.86	41,097.00
Public Relations	6.10	4.00	6.00	3.00	-	-	19.10	450.79	8,610.00
Residential Mortgage	84.00	208.40	477.60	841.80	884.10	298.00	2,793.90	384.86	1,075,248.00
Outsourcing of Residential Mortgage Book	11.00	16.30	666.00	57.00	82.00	-	832.30	495.11	412,076.00
Retail Book	29.50	-	179.50	645.00	512.50	219.30	1,585.80	326.67	518,028.50
Retention of Title	1.50	-	1.10	-	5.50	-	8.10	356.36	2,886.50
Sale Process	46.50	56.50	59.00	76.50	195.50	38.50	472.50	436.22	206,115.00
Structured Property Finance	255.50	690.40	1,457.20	1,822.20	3,005.80	203.50	7,434.60	450.26	3,347,531.00
Steps pre-appointment	11.00	4.00	15.00	-	-	-	30.00	586.33	17,590.00
Trading	0.50	37.50	384.80	325.70	679.50	454.00	1,882.00	306.50	576,834.00
VAT & Taxation	76.40	82.60	331.60	210.10	212.60	101.80	1,015.10	571.15	579,773.50
Wholesale Depositors	-	-	-	-	25.60	40.00	65.60	207.07	13,584.00
Grand Total	847.10	1,108.20	4,690.50	4,787.00	7,108.30	5,129.50	23,670.60	375.02	8,877,036.00

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	Standard Rates for M&A
	2008/2009	2008/2009
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

Heritable'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 Executives dealing with the Heritable'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 Heritable'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.