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TO ALL KNOWN CREDITORS

30 April 2010

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Dear Sirs

Heritable Bank Plc (In Administration) (“the Company”)

Court of Session number: P1684/08

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

Registered company number: SC000717

I write, in accordance with Rule 2.38 of the Insolvency (Scotland) Rules 1986 (the “Rules”), to provide creditors with a report on the progress of the administration. This report covers the period from 5 December 2009 to 22 March 2010 and should be read in conjunction with the Administrators’ proposals dated 20 November 2008 (the “Proposals”) and the Administrators’ progress reports dated 17 April 2009 (the “April Report”), 13 August 2009 (the “August Report”) and 14 January 2010 (the “January 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 consecutive six-month periods commencing on an Administrator’s appointment. However, accounting periods may be shortened with the court’s permission. Following an application by the Administrators in October 2009 and in accordance with the judgment of the Court of Session in Scotland, Heritable’s accounting periods may now be shortened with the consent of Heritable’s creditors’ committee. As dividends can only be declared and paid in respect of accounting periods which have ended, and in order to enable the payment of interim dividends, the Administrators have shortened the last three accounting periods. With the consent of Heritable’s creditors’ committee, the fourth accounting period ended on 22 March 2010.

Summary of progress since the January Report

1. Deposits

1.1 Retail Deposits

The position remains as previously reported. Going forwards, we do not anticipate there to be any significant developments to report regarding retail deposits and therefore we will only report by exception.

1.2 In-House Accounts and Pending Accounts

The position remains as previously reported. Going forwards, we do not anticipate there to be any significant developments to report regarding In-House and Pending Accounts and therefore we will only report by exception.

1.3 Potential Trust Claims

As outlined in the Administrators' previous reports, the Administrators have investigated 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.

Since the January Report, the Administrators' legal advisers have been in discussions with the affected parties' legal advisers in relation to the way forward and the nature of the proposed court applications to determine entitlement to these funds. Those discussions have focused on the best and most cost effective way to sequence the necessary applications to the Scottish Court of Session and the English Companies Court, whether the litigation should be started in Scotland or England and the precise formulation of the issues the relevant court will be asked to decide.

While these discussions are continuing and the issues involved are complex, the Administrators hope that the discussions will be concluded shortly.

2. Heritable books of business

2.1 Structured Property Finance

At the time of the Administrators' appointment, the structured property finance ("SPF") loan book comprised 252 loans with a book value of c.£372.4m (£317.2m net of impairments). The book value as at the date of administration has since been revised to c.£326.9m following a write back of c.£9.7m of impairments. Also included within the loan book are 99 short term funding loans ("STLB") with a net book value of c.£26.9m as at the date of administration.

As previously reported, the strategy remains to run off the SPF loan book. This involves continuing to lend to certain borrowers where this improves the value of the loan book. 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, and plan to formally test the market for a potential sale when economic conditions are more favourable.

The loan books continue to perform well in the current economic conditions. Collections across the books as at 22 March 2010 totalled c.£252.4m (including interest and fees) and remain ahead of forecast. This excludes c.£60.8m lent to borrowers to continue to fund the developments.

2.1.1 SPF loan book

Net cash receipts since the date of administration totalled c.£137.4m as at 22 March 2010. This comprised 112 loan redemptions and other capital receipts of c.£227.7m, interest and fees of c.£8.7m less draw-downs of c.£60.8m and less payment to LBG of c.£38.2m. The number of loans outstanding has decreased from 252 to 140 loans, with a net book value of c.£198.2m.

The outstanding loan book comprises loans relating to land/sites (with and without planning) (14.7%), ongoing development projects (57.5%) and completed stock (27.8%).

The top five largest borrower groups account for just under 40% of the net book value. A recovery strategy has been determined for each of the borrower groups and, in line with these strategies we have continued to meet requests for committed funds where expenditure helps to preserve the value of the loan book, as well as collecting interest and repayments on existing loans. The strategies are continually revisited as construction and negotiations with the borrowers progress.

The Administrators are actively pursuing the completion of any exchanged contracts in relation to properties and, where appropriate, working to accelerate the sales or refinancing of any unsold units in an orderly fashion so as to minimise the impact on recoveries.

Where a borrower has defaulted on its loan and the Administrators have concluded that continued support of the borrower is not likely to maximise value, a formal demand has been issued and, in a number of cases, a Law of Property Act receiver ("LPA Receiver") has been appointed.

To date we have issued formal demands on 76 borrowers and have appointed LPA Receivers in respect of properties held by 38 borrower groups. This includes appointments over the STLB loans managed by SPF.

2.1.2 STLB Loan Book

Net cash receipts in relation to the 99 development loans totalled c.£13.3m as at 22 March 2010, comprising 25 loan redemptions and capital receipts of c.£16m, less draw-downs of c.£2.7m.

The number of loans outstanding has decreased from 99 to 74 loans, with a net book value of c.£13.6m.

2.2 Landsbanki Guernsey Limited (In Administration) (“LBG”)

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

There remain five borrower groups where a combined approach is required. Payments to LBG since the date of administration total c.£38.2m (compared with c.£36.2m as detailed in the January Report). Such payments comprise c.£36.2m of capital receipts and c.£2m of interest.

2.3 Residential Mortgages (“RM”)

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

The value of the RM loan book on appointment was c.£690m (including c.£64.7m in relation to the short term loan book). This has reduced to c.£452m (net of impairments of £32.9m) as at 22 March 2010. Creditors should be aware that c.£58.5m (£26.9m net of impairments) of the overall £238m reduction has been as a direct result of certain short term and other complex loans (including the STLB) being transferred from the RM division to the SPF division.

Receipts to date, including interest collections and redemptions, total c.£181m. Draw-downs of c.£2m (in relation to short term development loans held in RM before the loans were transferred to SPF) have been made since the Administrators’ appointment.

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

3. Subsidiary Companies

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

As previously reported, Heritable is by far the largest creditor of HCP, being the beneficiary of an intercompany liability of c.£24.1m as at the date of administration. This subsequently reduced by c.£4.1m by reason of set-off in relation to the Swaylands project (“Swaylands”).

HCP has itself extended six loans (seven as per the January Report) which are secured against developments/sites. In addition, Heritable has extended three loans to HCP in relation to Swaylands, which is owned by HCP.

Since Administration Heritable has advanced a total of c.£5.5m to HCP, of which c.£5m relates to Swaylands and c.£500k relates to other loans. Heritable considers that providing funding in relation to these developments/sites is the best way to maximise recoveries and anticipates full repayment of these loans.

Negotiations to recover HCP's equity positions are ongoing. The two main projects, Swaylands and Neptune (Ealing Road) LLP ("Neptune"), comprise more than 75% of Heritable's exposure to HCP.

In relation to Swaylands, receipts from completed sales in the development are in line with forecast and it is expected that this will allow HCP to repay its loan (in association to this project) to Heritable in full.

In relation to Neptune, the borrower has achieved a resolution to grant planning permission for the Alperton site (undeveloped land) and is in the process of negotiating the s.106 planning agreement with Ealing Council, which is expected to take approximately six months and is expected to increase the value of the property. The intention is to sell the site once the s.106 planning agreement is signed.

Progress continues to be made in relation to all other loans.

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

HAF's remaining loan book was sold to Aldermore Bank Plc on 2 March 2010 for a consideration of c.£23m, representing a return on the remaining book of c.83 pence in the pound.

In total the administrators of HAF have paid three interim dividends in an amount of c.£65.8m totalling 87.43 pence in the pound. Heritable is the largest creditor of HAF and has received dividends of c.£65.7m.

HAF's administrators are currently finalising a claim from HMRC, and intend to pay a final dividend and dissolve HAF shortly following this.

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

KBFC received an amount of £430,635 from HMRC in March 2010 in relation to a corporation tax repayment. This enabled a third and final distribution to be made to KBFC's unsecured, non-preferential creditors. In total KBFC has paid dividends in an amount of c.£46.7m totalling 94.1 pence in the pound. As KBFC's majority creditor Heritable received total dividends of c.£46.1m.

Following the sale of KBFC and KBFL's loans, the Administrators have concluded that KBFC and KBFL have no remaining property which might permit any further distributions to their creditors. Accordingly, the Administrators have taken steps to end the administration of both companies and dissolve each company.

4. Customer Collections

As previously reported, the terms of an agreement reached with HSBC Bank Plc ("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.

To date, direct debit indemnity claims totalling £25,383 have been settled with HSBC as an expense of the administration.

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

5. Employees

Since the January Report, one further employee has been made redundant. In addition six employees have transferred under the requirements of the Transfer of Undertakings (Protection of Employment) ("TUPE") to the purchaser of the HAF loan book. As at 22 March 2010, Heritable had 24 employees.

Retention plans are in place for the remaining employees based upon their service line. The retention plans for certain service lines were reviewed in December 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.

6. Statutory Matters

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

7. Receipts and payments account

I enclose an abstract of receipts and payments account for the period 7 October 2008 to 22 March 2010. This does not reflect estimated future realisations or costs.

To date receipts total £572,971,136. Cash at bank as at 22 March 2010 was £86,484,016 (including £2m held in relation to the cash collateral account described above) after total payments of £486,487,120.

For the period 5 December 2009 to 22 March 2010, receipts totalled £115,651,774 and payments totalled £163,125,610 (substantially comprising payments made to creditors in respect of the second interim dividend).

Please note that a third interim dividend of 6.19 pence in the pound, totalling c.£62.5m, was paid to unsecured non-preferential creditors on 26 March 2010 as reported below. As such, the 22 March 2010 cash balance detailed above has since been reduced by this sum.

8. Joint Administrators' remuneration and disbursements

The Administrators' remuneration was fixed on a time-cost basis by a resolution of the creditors' committee passed on 22 December 2008. To date, the Administrators have incurred time costs of £12,428,973 (excluding VAT) against which the sum of £12,428,973 (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.

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

To date, the sum of £20,466 (including VAT) has been drawn in respect of disbursements, as recorded in the abstract of receipts and payments at Appendix 1.

9. Creditors

9.1 Secured creditors

Heritable has no secured creditors.

9.2 Preferential creditors

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

9.3 Non-preferential creditors

Total non-preferential claims received (excluding those received from Landsbanki Islands h.f. (*LIHF*)) amounted to c.£1.009 billion. These claims were adjudicated upon and admitted in the following amounts:

Retail Deposits - FSCS	£547,062,084
In House and Pending Accounts – FSCS	£8,066,899
In House and Pending Accounts – not paid by FSCS	£585,389
Landsbanki Guernsey	£34,347,647
Wholesale Deposits – not paid by FSCS	£415,681,773
Wholesale Deposits – FSCS	£883,441
Trade Creditors	£1,110,231
Employees	£1,446,327
RPO	£75,911
	<u>£1,009,259,702</u>

Claims totalling £107,071 have been formally rejected.

With respect to claims submitted by LIHF, LIHF's claim under a revolving credit facility between Heritable and LIHF, in an amount of c.£86m has been rejected, although the rejection has been appealed by LIHF. LIHF's claims under the guarantee and subordinated loan agreement between the parties have been treated as contingent claims and valued at zero. LIHF has appealed the valuation of both of its contingent claims.

9.3.1 Retail Deposits

The position remains as previously reported.

9.3.2 In-House Account and Pending Accounts

The position remains as previously reported.

9.3.3 Wholesale Deposits

The position remains as previously reported.

9.3.4 Other Creditors

We received claims of £1,454,796.97 from other non-preferential unsecured creditors. These comprise amounts due to wholesale brokers and trade suppliers. We have admitted claims totalling £1,110,230.75 for the purposes of the third interim dividend (claims of £1,033,828 were admitted for the second dividend) and rejected claims totalling £107,071.

9.3.5 Employees

The non-preferential element of employees' claims admitted for the third interim dividend totalled £1,446,327 (claims of £1,441,946 were admitted for the second interim dividend).

The Redundancy Payment Office ("RPO") claim relating to payments made to employees in respect of the non-preferential elements of their claims was admitted for £75,911 (previously reported as £75,151).

9.4 Intercompany Claims

9.4.1 Intercompany liabilities

As discussed in the Administrators' previous reports, LIHF has submitted three claims in Heritable's administration and Heritable has submitted four claims in LIHF's winding up. Please refer to the Administrators' previous reports for further details on these claims.

Since the January report, the dispute between Heritable and LIHF in relation to these claims has continued and further action has been necessary in the proceedings in Scotland and Iceland.

9.4.1.1 Scottish proceedings

The court documents required to be filed by LIHF to support its appeal and by Heritable to support its rejection of LIHF's claims have been filed with the Court of Session. The court documents have been subsequently updated and revised by both parties and are now close to being finalised. When these documents are finalised the Court of Session will be in a position, subject to dealing with issues that arise in connection with the interrelationship between the Scottish and Icelandic proceedings discussed below, to give directions for a trial of Heritable's claims against LIHF in Scotland or England.

9.4.1.2 Icelandic proceedings

While Heritable's position is that decisions made in the Icelandic winding up of LIHF are not binding in Heritable's administration in Scotland, the applicable law has not yet been tested in the Court of Session and therefore it has been necessary for Heritable to make a protective filing of its claims against LIHF in Iceland.

On 14 January 2010, the Winding-up Board of LIHF formally adjudicated on Heritable's claims and rejected three of Heritable's four claims. Only Heritable's claim relating to the termination of interest rate swaps was admitted, in an amount of £7.25m.

Under Icelandic law, if Heritable wished to avoid the Winding-up Board's decision becoming final it had to file an objection with the Winding-up Board before 24 February 2010. Accordingly, on 23 February 2010 Heritable filed a notice of objections to the decisions of the Winding-up Board of LIHF. On 8 March 2010, in accordance with the requirements of Icelandic law the Winding-up Board of LIHF invited Heritable to a special mediation meeting on 22 March 2010 to discuss Heritable's claims.

Both at the time Heritable filed its objections to LIHF's rejection of Heritable's claims and when responding to LIHF's invitation to a mediation meeting, Heritable reiterated that its participation in the Icelandic proceedings was subject to the power of the Court of Session to determine LIHF's liabilities for the purposes of establishing the amount of LIHF's claim in Heritable's administration. Heritable requested that LIHF stay the Icelandic proceedings until the Court of Session had ruled on whether the decision of the Winding-up Board or the Icelandic court would be binding in Scotland and Heritable's administration.

On 24 March 2010 the Winding-up Board of LIHF confirmed that it refused the request for a stay and that it had referred the dispute regarding Heritable's claims to the District Court of Reykjavik. On 30 March 2010 the Administrators received a summons requiring Heritable to attend a preliminary procedural hearing before the District Court in Reykjavik on 14 April 2010. Heritable attended this hearing and reiterated its request for a stay and its reservation of its rights with respect to the proceedings in Scotland.

9.4.1.3 Interrelationship between the Scottish and Icelandic proceedings

Since LIHF has continued to reject Heritable's claims in the Icelandic winding up process and has referred matters to the District Court of Reykjavik for resolution, Heritable is asking:

(i) the Court of Session to fix, as soon as it can, a hearing to rule on whether the decision of the Winding-up Board or the District Court of Reykjavik would be to any extent binding in Heritable's administration; and

(ii) the District Court of Reykjavik to stay further consideration of Heritable's claims pending the final determination by the Court of Session of the issue noted at (i) above.

The Administrators will decide how best to proceed in light of the rulings made by the Court of Session and the District Court in Reykjavik. The Administrators hope that they will be able to withdraw Heritable's claims from LIHF's Icelandic winding up proceeding, which will be possible if the Court of Session confirms that the decisions made in the Icelandic winding up are not binding in Heritable's administration.

The proceedings are continuing and the Administrators will report on further developments in their next report.

9.4.2 Intercompany receivables

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

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

As discussed in the January Report, Heritable’s claim in the administration of HAF has increased by £134,910 due to the assignment by KBFC to Heritable of a claim against HAF arising from certain payments made to HMRC by KBFC in respect of group VAT liabilities.

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

As stated above, KBFC has paid a total dividend to Heritable of c.£46.1m. KBFC has now moved to dissolution. HAF has paid total dividends of c.£65.7m to Heritable. The administrators of HAF intend to finalise a claim from HMRC in relation to corporation tax before the administrators take steps to end the administration and dissolve the Company.

The claim in relation to Heritable Capital Partners Limited (“HCP”) was reported as £24,095,925 in the January Report. However, the total amount owing has reduced to c.£20m by reason of the set-off of an amount owing by HCP to Heritable in connection to Swaylands.

10. Distributions to Creditors

As previously reported, Heritable’s administrators declared and paid a first and final dividend of 100 pence in the pound to preferential creditors.

Heritable’s administrators have declared and paid the following interim dividends to Heritable’s unsecured non-preferential creditors:

- (i) a first interim dividend of 16.13 pence in the pound in an amount of c.£162.7m on 28 July 2009;
- (ii) a second interim dividend of 12.66 pence in the pound in an amount of c.£127.7m on 16 December 2009; and
- (iii) a third interim dividend of 6.19 pence in the pound in an amount of c.£62.5m on 26 March 2010. The third dividend has been made in accordance with the scheme of division included at Appendix 4 to this report.



The Administrators intend to declare a fourth interim dividend to unsecured non-preferential creditors in July 2010. The quantum of this dividend remains subject to the continued collection of funds through a run-off of the various loan books.

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

Yours faithfully
For Heritable Bank Plc (In Administration)

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

AR Bloom
Joint Administrator

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

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

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

Appendix 1

Heritable Bank Plc (In Administration) - Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 22 March 2010

	Balance as at 4 December 2009	Movement from 5 December 2009 to 22 March 2010	Balance as at 22 March 2010
	£	£	£
Receipts			
SPF Interest	8,544,790	563,724	9,108,515
Mortgage Receipts	40,207,944	8,142,137	48,350,082
Sundry	162,712	913	163,625
Mortgage Redemptions	109,541,024	21,937,353	131,478,377
Funds due to Heritable Asset Finance	-	153,807	153,807
SPF Plot Sale	181,857,873	48,095,756	229,953,629
SPF Capital Reduction	2,309,572	9,660,463	11,970,035
Receipts from ING	936,752	-	936,752
Refund of Cash Ratio from BOE	597,406	-	597,406
Financing	113,995	-	113,995
Bank Interest	408,600	35,878	444,478
Dividends From Subsidiaries	85,168,690	26,313,154	111,481,844
Intercompany Recharges	4,793,298	730,163	5,523,462
Cash at Bank	2,143,846	10,847	2,154,693
Bawag Loan	20,000,000	-	20,000,000
Debtors not subject to Fixed Charge	-	7,550	7,550
Transfer from Claims Reserve	532,889	-	532,889
	<u>457,319,392</u>	<u>115,651,744</u>	<u>572,971,136</u>
Payments			
Direct Labour	12,067	-	12,067
Pension	552,447	94,919	647,366
Net Wages	3,805,031	468,969	4,274,000
Employees NIC Reimbursement	14,373	550	14,923
Employee Life Insurance	8,479	-	8,479
RML Other	5,595	-	5,595
Professional Fees	95,402	-	95,402
Scottish Lodgement Fee	15	-	15
Refund of overpayment	69,773	28,691	98,464
Business Rates	156,033	128,316	284,350
Repayment of post-appointment receipts	52,859	-	52,859
Employee Expenses	26,325	2,419	28,745
Sundry Expenses	108,833	5,583	114,416
Bank Charges and Interest	34,094	7,617	41,710
Administrators Fees	12,199,431	1,712,687	13,912,117
Administrators Disbursements	18,000	2,466	20,466
Legal Disbursements	72,298	-	72,298
Legal Fees	3,770,526	1,174,352	4,944,878
Loans to Subs	620	-	620
SPF - Legal	547,066	439,671	986,736
Purchase Orders/Trade Suppliers	3,388,919	883,983	4,272,902
SPF Drawdown	44,272,810	11,081,210	55,354,019
RML Drawdown	2,699,594	-	2,699,594
HCP Drawdown	-	599,474	599,474
Ransom Payments - Trade / Legal	273,080	-	273,080
RML - Legal	256,321	-	256,321
Bawag Loan Interest	22,657,706	-	22,657,706
Bawag Loan fee	1,000,000	-	1,000,000
Payments on behalf of HCP	4,762,527	380,589	5,143,116
Direct Debit Indemnity Claims	23,650	1,733	25,383
Insurance	97,545	-	97,545
PAYE	2,586,782	450,185	3,036,967
Transfer to HSBC DD Cash Collateral A/c	-	-	-
Payments to Landsbanki Guernsey	35,968,410	2,527,467	38,495,877
VAT Payment	1,690,866	-	1,690,866
Distribution to preferential creditors	36,698	-	36,698
First distribution to unsecured creditors	181,416,148	57,129	181,473,276
Second distribution to unsecured creditors	-	142,157,561	142,157,561
Oakwood Management Fee	499,780	897,562	1,397,341
Funds owed to Heritable Asset Finance	456	(456)	-
Assignment of VAT Liability	128,165	-	128,165
Petty Cash	3,500	2,000	5,500
VAT payable	49,288	20,935	70,223
	<u>323,361,510</u>	<u>163,125,610</u>	<u>486,487,120</u>
	<u>133,957,882</u>	<u>(47,473,866)</u>	<u>86,484,016</u>
Represented By:			
Royal Bank of Scotland	118,480,902	(65,792,281)	52,688,621
HSBC Current Account	1,987,305	6,094,466	8,081,770
HSBC - SPF account	11,477,069	12,236,526	23,713,595
HSBC - DD Cash Collateral Account	2,000,000	-	2,000,000
HSBC - Euro Current Account	12,607	(12,577)	30
	<u>133,957,882</u>	<u>(47,473,866)</u>	<u>86,484,016</u>

Please note that certain items have been re-classified since the January Report.

Joint Administrators' Abstract of Receipts and Payments from 7 October 2008 to 22 March 2010 for the Claims Reserve Account

	7 October 2008 to 4 December 2009	Movement from 5 December 2009 to 22 March 2010	Balance as at 22 March 2010
	£	£	£
Receipts			
Reserve for unsettled claims and provisions	18,738,369	14,301,582	33,039,951
Bank interest	13,967	32,719	46,686
	<u>18,752,336</u>	<u>14,334,301</u>	<u>33,086,637</u>
Payments			
Transfer to administration account	532,889	-	532,889
	<u>532,889</u>	<u>-</u>	<u>532,889</u>
	<u>18,219,447</u>	<u>14,334,301</u>	<u>32,553,747</u>
Represented by:			
Royal Bank of Scotland	18,219,447	14,334,301	32,553,747
	<u>18,219,447</u>	<u>14,334,301</u>	<u>32,553,747</u>

Appendix Z

Heritable Bank Plc (in Administration)

Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 22 March 2010

Classification of work function	Partner	Executive Director	Senior Manager	Manager	Senior	Staff	Total Hours	Average Hourly Rate (£)	Time costs for period (£)
Accounting, Administration, Bank & Statutory Reporting/duties	176.60	10.10	597.00	492.20	924.30	4,320.30	6,520.00	246.70	1,608,506.50
Creditors	158.50	12.00	285.10	509.60	1,392.40	1,398.60	3,739.30	265.83	994,022.00
Employee Matters	40.30	-	149.80	66.00	497.20	28.30	785.60	331.56	260,470.00
FSA/BoE Reporting	7.50	1.00	110.80	90.50	91.50	-	303.30	392.20	118,954.50
Investigations	2.00	-	13.50	3.50	17.00	-	36.00	354.44	12,760.00
Legal Issues	24.00	2.00	15.50	-	-	3.00	44.50	587.30	26,135.00
Other Assets	20.00	-	6.00	74.50	20.80	16.00	137.30	400.12	54,937.00
Public Relations	7.10	4.00	6.00	4.00	-	-	22.10	469.23	10,370.00
Residential Mortgage	125.00	310.40	483.60	1,002.30	953.10	314.10	3,111.50	387.08	1,204,405.00
Outsourcing of Residential Mortgage Book	38.00	132.80	815.00	83.50	96.00	24.40	1,201.70	513.63	617,225.50
Retail Book	32.50	-	182.50	648.50	516.00	219.30	1,598.80	327.61	523,786.00
Retention of Title	3.00	-	1.10	-	5.50	-	9.60	410.05	3,936.50
Sale Process	54.00	104.00	79.50	101.00	587.50	55.00	981.00	402.03	394,395.50
Structured Property Finance	348.20	779.00	1,934.20	2,045.80	4,459.95	203.50	9,749.50	439.70	4,286,853.00
Steps pre-appointment	59.00	81.40	366.50	38.50	783.10	249.50	1,668.50	408.68	681,881.50
Trading	6.50	-	389.30	560.70	713.50	472.00	2,142.00	309.34	662,598.50
VAT & Taxation	89.40	149.50	396.20	381.30	472.05	118.50	1,549.80	537.48	832,986.00
Wholesale Depositors	5.00	23.80	24.50	25.30	98.60	40.00	280.40	480.56	134,750.00
Grand Total	1,196.60	1,610.00	5,856.10	6,127.20	11,628.50	7,462.50	33,880.90	366.84	12,428,972.50

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 2009/2010	Standard Rates for M&A 2009/2010
Partner	700	765
Director	635	670
Assistant Director	490	550
Senior Executive	360	410
Executive	265	330
Assistant Executive	205	-
Client Service Associate	195	-
Analyst	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.

Appendix 4

Heritable Bank Plc (In Administration)

Scheme of division in respect of the third interim dividend as at 22 March 2010

	£	£
Balance of Receipts and Payments account (excluding cash collateral account)		84,483,986.27
Balance of Reserve account		32,553,747.37
<u>Provisions for Certain Payments</u>		
Administrators' fees (unbilled)	624,547.14	
Administrators' fees (3 months)	1,084,516.67	
Legal costs (unbilled and 3 months)	1,317,860.06	
Trading costs (3 months)	2,392,063.14	
SPF drawdowns	8,000,000.00	
Late payments in respect of first and second dividends ¹	23,490.79	
Further provision for costs	1,557,522.20	
		<u>(15,000,000.00)</u>
Provision for potential payments in respect of first and second interim dividend		(32,553,747.37)
Balance available for third interim dividend to unsecured creditors		69,483,986.27
Provision for potential payments in respect of third interim dividend ²		(6,979,785.36)
Dividend payable for third interim dividend to unsecured creditors		<u>62,504,200.91</u>

The estimated sum of £62,504,200.91 represents a dividend of c.6.19 pence in the pound to unsecured creditors whose claims total £1,009,259,700.83.

¹ This relates to payments made to creditors who did not submit claims prior to the last date for proofs in respect of the first and second interim dividends but have done so (and been admitted) subsequently.

² Breakdown set out below

Provision for potential payments in respect of third interim dividend:

	Note	£	£
Estimated Employees' Claims	1		1,320,116.94
Trade Creditors	2		397,586.44
<u>LIHF:</u>			
RCF Claim	3	85,985,378.60	
Guarantee Claim	4	0.00	
Subordinated Debt Claim	5	0.00	
			<hr/>
			87,703,081.98
General Provision	6		25,000,000.00
			<hr/>
Total Provisions			112,703,081.98
			<hr/>
Dividend of 6.19p/£			6,979,785.36

Notes:

1. This relates to future potential redundancy costs.
2. This relates to the claims of creditors included in the Statement of Affairs who have not yet submitted a claim in the Administration.
3. This relates to the claim made by LIHF for the balance drawn by Heritable under the £400m revolving credit facility between the parties. The claim has been rejected by the Administrators in full for the reasons described in the Administrators' previous reports. LIHF has appealed the rejection of its claim and, under applicable legislation, Heritable is required to make a provision for the dividend payable in respect of the full amount of the claim pending resolution of the appeal.
4. This relates to the claim made by LIHF in respect of the guarantee dated 19 January 2004 pursuant to which LIHF agreed to guarantee all amounts owing by Heritable to its other creditors. The Administrators have treated this claim as a contingent claim and attributed to it a value of zero for the reasons described in the Administrators' previous reports. Although LIHF has appealed the valuation of this claim, it has confirmed that the Administrators do not presently need to make a provision in respect of this claim.
5. This relates to the claim made by LIHF under a £50m subordinated loan agreement between the parties. The Administrators have treated this claim as a contingent claim and attributed to it a value of zero for the reasons described in the Administrators' previous reports. Although LIHF has appealed the valuation of this claim, it has confirmed that the Administrators do not presently need to make a provision in respect of this claim.
6. A general provision of £25m for any unknown potential claims.

Administrators' progress report

Pursuant to Rule 2.38 of the Insolvency (Scotland) Rules 1986

Name of Company Heritable Bank Plc (In Administration)	Company number SC000717
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(a) Insert full name(s)
and address(es) of
administrator(s)

I / We (a) Alan Robert Bloom, Patrick Joseph Brazzill, Margaret Elizabeth Mills and Thomas Merchant Burton

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

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

from

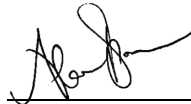
to

(b) Insert date

(b) 5 December 2009

(b) 22 March 2010

Signed



Joint / Administrator

Dated

30 April 2010

Contact Details:

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

Shane Fuller

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

Tel: 0207 951 7748

DX Number:

DX Exchange:

Companies House receipt date
barcode

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

Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB

DX 235 Edinburgh / LP 4 Edinburgh-2