

TO ALL KNOWN CREDITORS

11 May 2011

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

Direct line: 020 7951 5950

email: tcooper1@uk.ey.com

Dear Sirs

Heritable Bank Plc (In Administration) (“the Company”)**Court of Session number: P1684/08****Registered office address: Ernst & Young LLP, George House, Glasgow, G2 1RR****Registered company number: SC000717**

I write, in accordance with Rule 2.38 of the Insolvency (Scotland) Rules 1986 (the “Rules”), to provide creditors with a report on the progress of the Administration. This report covers the period from 1 January 2011 to 31 March 2011 and should be read in conjunction with the Administrators’ proposals dated 20 November 2008 (the “Proposals”) and the Administrators’ previous progress reports dated 17 April 2009, 13 August 2009, 14 January 2010, 30 April 2010, 11 August 2010 and 10 November 2010 (the “November 2010 Report”) and 10 February 2011 (the “February 2011 Report”).

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

Under the Rules, a progress report must be sent to creditors within six weeks after the end of each accounting period. Accounting periods are usually consecutive six-month periods commencing on an administrator’s appointment, although accounting periods may be shortened with the court’s permission. Following an application by the Administrators in October 2009 and in accordance with the judgment of the Court of Session in Scotland, the Company’s accounting periods may now be shortened with the consent of the Company’s creditors’ committee. As dividends can only be declared and paid in respect of accounting periods which have ended, and in order to enable the payment of interim dividends, the Administrators have shortened the last six accounting periods. With the consent of the Company’s creditors’ committee, the seventh accounting period ended on 31 March 2011.

Summary of progress since the November 2010 Report

1. Deposits

1.1 Potential trust claims

As previously reported, the Administrators continue to discuss the trust claims with the affected parties and without prejudice discussions continue to progress with a view to reaching a mutually agreed settlement without the need for and expense of litigation.

2. Books of business

2.1 Structured Property Finance (“SPF”)

At the time of the Administrators’ appointment, the SPF loan book comprised of 252 loans with a book value of £372.4 million (£317.2 million net of impairments). The net book value of the loan book as at the date of Administration has since been revised to £324.6 million following a write back of £7.4 million of impairments. Also included within the SPF loan book are 99 short term funding loans (“STLB”) with a net book value of £26.9 million as at the date of Administration, which has since been revised to £34.2 million, following a further transfer of more complex STLB accounts from the residential mortgage loan book to SPF, and a write back of £4.4 million of impairments.

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. Whilst the Administrators will continue to assess the return to creditors through a continued run-off of the loan book compared with a sale of the remainder of the book, plans to formally test the market have been put on hold due to the continued success of the run off strategy.

The outstanding loan book comprises of loans relating to: (i) land/sites (with and without planning) (15%); (ii) ongoing development projects (69%); and (iii) completed stock (16%).

The top 15 loan accounts now comprise of 75% of the net book value of the remaining loan book. 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 Administrators’ strategies are continually revisited as construction and negotiations with the borrowers progress. In the last quarter, the first of the top 15 schemes sold its final unit and has repaid the outstanding debt in full.

The Administrators are actively pursuing the completion of any exchanged contracts in relation to properties under offer and, where appropriate, working to accelerate the sales or refinancing of any unsold units in an orderly fashion so as to minimise the negative 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”) or an Administrator has been appointed.

To date, the Administrators have issued formal demands in respect of 102 loans to 88 borrower groups. The Administrators have appointed LPA Receivers in respect of properties held by 51 borrower groups, as well as appointing Administrators over three borrower groups. This includes appointments over the STLB loans managed by the SPF team.

Net cash receipts since the date of Administration totalled £279.4 million as at 31 March 2011. This comprised of 183 loan redemptions and other capital receipts of £403.3 million and interest and fees of £15.2 million (less work in progress draw-downs of £99.6 million and less payments to Landsbanki Guernsey Limited (in Administration) of £39.5 million). The number of loans outstanding has decreased from 351 to 168 loans, with a net book value of £94.6 million. A further £6.4 million is required to fund work in progress payments for ongoing development projects.

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

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

There remain seven borrower groups where a combined approach is required. There has been one payment since the February 2011 report in the sum of £2.0 million, with payments to LBG since the date of Administration totalling £41.0 million. Such payments comprise of £39.0 million of capital receipts and £2.0 million of interest.

2.3 Residential Mortgages (“RM”)

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

The gross value of the RM loan book on appointment was £690.0 million (including £64.7 million in relation to the STLB). This has reduced to £353.5 million (net of impairments of £21.3 million) as at 31 March 2011. Creditors should be aware that £58.5 million (£26.9 million net of impairments) of the overall £294.1 million reduction has been a direct result of certain short term and other complex loans (including the STLB) being transferred from the RM division to the SPF division.

Gross receipts to 31 March 2011, including interest collections and capital repayments, total £298.6 million. Draw-downs of £2.7 million (in relation to short term development loans held in the RM loan book before the loans were transferred to SPF) have been made since the Administrators' appointment.

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

3. Subsidiary companies

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

As previously reported, the Company is the largest creditor of HCP, being the beneficiary of an intercompany loan of £24.1 million as at the date of appointment. This subsequently reduced by £4.1 million by reason of set-off in relation to the Swaylands development project (“Swaylands”).

HCP has itself extended six loans to underlying borrowers which are secured against the relevant developments/sites. In addition, the Company has extended three loans to HCP in relation to Swaylands, which is owned by HCP.

Since appointment, the Company has advanced a total of £8.8 million to HCP, of which £8.3 million relates to Swaylands and £0.5 million relates to other 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 the Company’s gross 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 the capital balance of its loan (in relation to this project) to the Company in full. However, it is unlikely that all of the interest and fees will be recovered.

In relation to Neptune, the borrower has been granted planning permission for the site (undeveloped land) and has agreed heads of terms for the section 106 planning agreement with the local Council. Unfortunately the previously agreed sale is no longer proceeding. This is because the preferred bidder sought to reduce the price, which the Company felt undervalued the site and therefore withdrew from the sale.

The scheme at Kingswood has now been completely sold with the last unit completing during the quarter. The Criterion property was also refinanced during the quarter using bank debt and third party equity finance. Unfortunately, but as expected, both transactions saw HCP lose all of its investment in the project.

Progress continues to be made in relation to the remaining two projects, however it is unlikely that there will be a significant recovery on those projects.

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

As previously reported, HAF’s remaining loan book was sold to Aldermore Bank Plc on 2 March 2010 for a consideration of £23.0 million, representing a return on the remaining book of 83.0 pence in the pound.

A total of four dividends have been paid to creditors, representing an overall return to creditors of 95.4 pence in the pound. As HAF’s largest creditor, the Company has received total dividends of £71.5 million.

The Administrators of HAF have now realised all assets and are in the process of finalising the costs that need to be made from the estate. Once these costs have been paid the Administrators will be in a position to dissolve HAF.

3.3 Key Business Finance Limited and Key Business Finance Corporation Plc (formerly in Administration) (“KBFL” and “KBFC” respectively)

Following a sale of the KBFL and KBFC loans, the Administrators concluded that KBFL and KBFC had no remaining property which might permit any further distributions to creditors. Accordingly, both companies were dissolved on 12 April 2010.

4. Customer collections

As previously reported, the terms of an agreement reached with HSBC Bank Plc (“HSBC”) provided for funds of £2.0 million to be retained by HSBC as collateral against claims brought against it as a result of its previous and ongoing sponsorship of the Company.

To date, direct debit indemnity claims totalling £25,912 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 Company.

5. Employees

Since the February 2011 Report, one employee has been made redundant.

As previously reported, 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 2010, at which time 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 31 March 2011. This does not reflect estimated future realisations or costs.

To date receipts total £863.1 million. Cash at bank as at 31 March 2011 was £78.5 million after total payments of £784.6 million.

For the period 31 December 2010 to 31 March 2011, receipts totalled £79.0 million and payments totalled £64.6 million (substantially comprising payments made to creditors in respect of the sixth interim dividend).

Please note that a seventh interim dividend of 6.2 pence in the pound, totalling £63.1 million, was paid on 15 April 2011 as reported below. As such, the cash balance detailed above has since been reduced by this sum.

8. Administrators' remuneration and disbursements

The Administrators' remuneration was fixed on a time-cost basis by a resolution of the creditors' committee passed on 22 December 2008. The Administrators have incurred time costs of £18.6 million (including VAT) against which the sum of £17.5 million (including VAT) has been drawn. An analysis of the time spent is included at Appendix 2 of this report. Appendix 3 includes a statement of the Administrators' policy in relation to charging time and disbursements.

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

To date, the sum of £50,670 (including VAT) has been drawn in respect of disbursements, as recorded in the abstract of receipts and payments at Appendix 1.

9. Creditors

9.1 Secured creditors

The Company has no secured creditors.

9.2 Preferential creditors

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

9.3 Non-preferential creditors

Total non-preferential claims received (excluding those received from Landsbanki Islands h.f. (“LIHF”)) amount to c. £1,009.6 million. These claims were adjudicated upon and admitted in the following amounts:

Retail Deposits – Financial Services Compensation Scheme (“FSCS”)	£547,062,084
In House and Pending Accounts – FSCS	£8,149,926
In House and Pending Accounts – not paid by FSCS	£616,582
Landsbanki Guernsey	£34,347,647
Wholesale Deposits – not paid by FSCS	£414,943,788
Wholesale Deposits – FSCS	£1,621,426
Trade Creditors	£1,216,776
Employees	£1,513,744
RPO	£80,091
	<u>£1,009,552,063</u>

Claims of c. £0.2 million have been formally rejected.

The claims submitted by LIHF and the Administrators’ treatment of these claims is discussed in section 9.4.1 below.

9.3.1 Retail deposits

The position remains as previously reported.

9.3.2 Other creditors

The Administrators have received claims of £1.5 million from other unsecured non-preferential creditors. These comprise amounts due to wholesale brokers and trade suppliers. We have admitted claims totalling £1.2 million for the purposes of the seventh interim dividend (claims of £1.2 million were admitted for the sixth dividend) and rejected claims totalling £0.2 million.

9.3.5 Employees

The non-preferential element of employees’ claims admitted for the purposes of the seventh interim dividend totalled £1.5 million.

The Redundancy Payment Office (“RPO”) claim relating to payments made to employees in respect of the non-preferential elements of their claims was admitted for £0.1 million.

9.4 Intercompany claims

9.4.1 Intercompany liabilities

We refer to the summary of developments and the Administrators' position as set out in their previous reports.

The Company's appeal of Lord Glennie's decision on the preliminary issues is continuing and an appeal hearing has been fixed between 12 July 2011 and 15 July 2011.

9.4.2 Intercompany receivables

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

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

As previously reported, the Company's claim in the Administration of HAF has increased by £0.1 million. This is due to an assignment by KBFC to the Company of a claim KBFC had against HAF, arising from certain payments made to HMRC by KBFC in respect of group VAT liabilities incurred by HAF.

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

As stated previously, KBFC has paid the Company total dividends of £46.1 million and has now moved to dissolution.

HAF has paid the Company total dividends of £71.6 million. The Administrators of HAF will shortly be taking steps to dissolve the company.

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

10. Distributions to creditors

The Company declared and paid a first and final dividend of 100 pence in the pound to preferential creditors in July 2009.

The Company has declared and paid the following interim dividends to the Company's unsecured non-preferential creditors:

- (i) a first interim dividend of c. 16.1 pence in the pound in an amount of c. £162.7 million on 28 July 2009;
- (ii) a second interim dividend of c. 12.7 pence in the pound in an amount of c. £127.7 million on 16 December 2009;

- (iii) a third interim dividend of c. 6.2 pence in the pound in an amount of c. £62.5 million on 26 March 2010;
- (iv) a fourth interim dividend of c. 6.3 pence in the pound in an amount of c. £63.3 million on 15 July 2010;
- (v) a fifth interim dividend of c. 4.1 pence in the pound in an amount of c. £41.8 million on 14 October 2010;
- (vi) a sixth interim dividend of c. 4.7 pence in the pound in an amount of c. £47.6 million on 14 January 2011; and
- (vii) a seventh interim dividend of c. 6.2 pence in the pound in an amount of c. £63.1 million on 15 April 2011. The seventh dividend has been made in accordance with the scheme of division included in Appendix 4 to this report.

The Administrators intend to declare an eight interim dividend in July 2011. 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 be 'AR Bloom', written in a cursive style.

AR Bloom
Joint Administrator

Enc: Joint Administrators' Abstract of Receipts and Payments Account
Summary of Joint Administrators' Time-Costs and Category 2 Disbursements
Joint Administrators' Policy on Fees and Disbursements
Scheme of division in respect of the seventh 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 31 March 2011

	Balance as at 31 December 2010	Movement from 31 December 2010 to 31 March 2011	Balance as at 31 March 2011
	£	£	£
Receipts			
SPF Interest	9,800,037	1,513,053	11,313,091
Mortgage Receipts	65,297,822	5,747,434	71,045,256
Sundry	113,318	1,254	114,572
Mortgage Redemptions	188,045,996	38,419,703	226,465,699
Funds from Aldermore Bank	158,062	-	158,062
SPF Plot Sale	361,482,286	33,081,224	394,563,510
SPF Capital Reduction	10,164,905	20,549	10,185,454
Post Appointment VAT refund	125,088	118,366	243,454
Receipts from ING	936,752	-	936,752
Refund of Cash Ratio from BOE	597,406	-	597,406
Financing	113,995	-	113,995
Bank Interest	592,359	21,049	613,408
Dividends From Subsidiaries	118,730,305	-	118,730,305
Intercompany Recharges	5,523,462	-	5,523,462
Cash at Bank	254,735	6,669	261,405
Bawag Loan	20,000,000	-	20,000,000
Dividends Received From Related Parties	7,550	-	7,550
Transfer from Direct Debit indemnity	92,187	-	92,187
Transfer from Claims Reserve	2,172,970	-	2,172,970
	784,209,233	78,929,302	863,138,535
Payments			
Direct Labour	12,067	-	12,067
Pension	805,662	61,813	867,474
Net Wages	5,510,876	490,240	6,001,116
Employees NIC Reimbursement	17,871	(2,856)	15,015
Employee Life Insurance	13,509	-	13,509
RML Other	70,744	-	70,744
Professional Fees	180,055	30,629	210,684
Scottish Lodgement Fee	15	-	15
Refund of overpayment	144,482	-	144,482
Business Rates	1,150,428	131,291	1,281,719
Repayment of post-appointment receipts	52,859	-	52,859
Employee Expenses	30,536	-	30,536
Sundry Expenses	169,278	15,201	184,478
Bank Charges and Interest	47,435	2,602	50,037
Administrators Fees	16,513,774	994,652	17,508,425
Administrators Disbursements	49,353	1,317	50,670
Legal Disbursements	72,298	-	72,298
Legal Fees	8,924,189	227,228	9,151,416
Loans to Subs	620	-	620
SPF - Legal	1,525,679	-	1,525,679
Purchase Orders/Trade Suppliers	5,026,433	668,456	5,694,889
SPF Drawdown	82,308,204	6,050,841	88,359,045
RML Drawdown	2,699,594	-	2,699,594
HCP Drawdown	645,025	2,838	647,863
Ransom Payments - Trade / Legal	273,080	-	273,080
RML - Legal	256,321	-	256,321
Bawag Loan Interest	22,657,706	-	22,657,706
Bawag Loan fee	1,000,000	-	1,000,000
Transfer to claims reserve account	53,463,114	5,328,354	58,791,468
Payments on behalf of HCP	8,426,817	340,475	8,767,292
Direct Debit Indemnity Claims	16,688	-	16,688
Insurance	313,910	-	313,910
PAYE	3,762,445	274,014	4,036,459
Transfer to HSBC DD Cash Collateral A/c Newcastle building society	146,412	-	146,412
Payments to Landsbanki Guernsey	670,025	-	670,025
VAT Payment	39,066,241	1,954,376	41,020,617
Distribution to preferential creditors	1,844,170	-	1,844,170
First distribution to unsecured creditors	36,698	-	36,698
Second distribution to unsecured creditors	163,196,197	-	163,196,197
Third distribution to unsecured creditors	127,732,409	-	127,732,409
Fourth distribution to unsecured creditors	62,482,259	-	62,482,259
Fifth distribution to unsecured creditors	63,318,128	-	63,318,128
Catch up payments for previous dividends	142,881	6,011	148,892
Sixth distribution to unsecured creditors	41,751,926	-	41,751,926
Oakwood Management Fee	0	47,610,416	47,610,416
Assignment of VAT Liability	3,309,521	406,705	3,716,226
Petty Cash	128,165	-	128,165
HMRC tax/nic deductions re emp dividend	9,500	1,300	10,800
	54,011	-	54,011
	720,029,607	64,595,903	784,625,511
	64,179,626	14,333,399	78,513,025
Represented By:			
Royal Bank of Scotland	27,463,875	21,929,398	49,393,273
HSBC Current Account	7,654,438	13,722,141	21,376,579
HSBC - SPF account	29,061,313	(21,318,141)	7,743,172
DD Cash Collateral Account	0	-	0
Euro current account	0	-	0
	64,179,626	14,333,399	78,513,025

Appendix 2

Heritable Bank Plc (In Administration)

Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 31 March 2011

Classification of work function	Partner	Executive Director	Senior Manager	Manager	Senior	Staff	Total Hours	Average Hourly Rate (£)	Time costs for period (£)
Accounting, Administration, Bank & Statutory Reporting, Statutory Duties and Immediate Tasks	219.80	12.90	603.50	570.00	1,604.70	6,097.80	9,108.70	242.44	2,208,311.01
Creditors and Debtors	223.80	22.50	290.10	1,088.10	2,356.40	2,048.80	6,029.70	239.92	1,446,647.64
Employee Matters	40.60	-	161.20	82.50	547.30	37.80	869.40	329.19	286,196.94
FSA/BoE Reporting	7.50	1.00	110.80	90.50	91.50	-	301.30	394.80	118,954.50
Investigations	2.00	0.50	14.00	3.50	17.00	38.00	75.00	125.43	9,407.50
Legal Issues	80.90	2.00	15.50	-	2.50	20.20	121.10	522.81	63,312.68
Other Assets and KBFC	10.00	0.50	6.00	75.50	20.80	16.00	128.80	418.30	53,877.29
Public Relations	6.10	4.00	6.00	3.00	-	-	19.10	450.79	8,610.00
Residential Mortgage	247.40	370.90	608.10	1,139.80	1,064.10	400.40	3,830.70	393.40	1,507,005.04
Outsourcing of Residential Mortgage Book	11.00	130.80	764.00	57.00	85.00	-	1,047.80	518.38	543,157.50
Retail Book	38.00	1.00	182.50	668.50	516.00	219.30	1,625.30	327.14	531,702.50
Retention of Title	1.50	-	1.10	-	5.50	-	8.10	356.36	2,886.50
Sale Process	61.80	123.00	80.50	105.00	606.00	55.00	1,031.30	406.93	419,662.40
Structured Property Finance	505.50	865.10	3,440.20	3,490.30	6,136.50	1,364.00	15,801.60	413.91	6,540,516.75
Steps pre-appointment	12.00	4.00	15.00	-	-	-	31.00	567.42	17,590.00
Trading	3.50	-	389.30	1,247.20	980.70	503.90	3,124.60	310.53	970,280.01
VAT & Taxation	102.90	216.30	485.20	421.50	765.20	139.20	2,130.30	540.15	1,150,686.31
Wholesale Depositors	-	-	-	-	25.60	40.00	65.60	103.41	6,784.00
Grand Total	1,574.30	1,754.50	7,173.00	9,042.40	14,824.80	10,980.40	45,349.40	350.29	15,885,588.57

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	721	788
Director	654	690
Assistant Director	505	567
Senior Executive	371	422
Executive	273	340
Assistant Executive	211	-
Client Service Associate	201	-
Analyst	175	-
Business Trainee	149	-

The above rates represent a 3% uplift as approved by the Creditors' Committee effective from 1 July 2010.

Appendix 3

Heritable Bank Plc (In Administration)

Office Holders' Charging Policy for Fees

The Company's creditors have determined that the Administrators' remuneration should be fixed on the basis of time properly spent by the Administrators and their staff in attending to matters arising in the Company's Administration.

The Administrators have engaged a manager and other staff to work on the cases. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by Accounting and Treasury Executives dealing with the Company's bank accounts and statutory compliance issues. Work carried out by all staff is subject to the overall supervision of the Administrators.

All time spent by staff working directly on case-related matters is charged to a separate time code established for each case. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rate for each category of staff over the period is shown in Appendix 2, as are the current hourly rates used. The current hourly rates may be higher than the average rates, if hourly rates have increased over the period covered by this report.

Office Holders' Charging Policy for Disbursements

Statement of Insolvency Practice No. 9 (Scotland) ("SIP 9") published by R3 (The Association of Business Recovery Professionals) divides disbursements into two categories.

Category 1 disbursements comprise payments made by the office holders' firm, which comprise specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. These disbursements can be paid from the insolvent's assets without approval from the Committee. In line with SIP 9, it is our policy to disclose such disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as the Committee require to support the disbursements drawn.

Category 2 disbursements comprise payments made by the office holders' firm which include elements of shared or overhead costs. Such disbursements are subject to approval from the Company's creditors as if they were remuneration. It is our policy, in line with SIP 9, to seek approval for this category of disbursement before they are drawn.

We do not propose to draw any Category 2 disbursements.

Appendix 4

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

Administrators’ Proposed Scheme of Division for the Seventh Interim Dividend as at 31 March 2011

	£	£
Balance of Receipts and Payments account		78,513,024.73
Balance of Reserve account		57,448,563.98
<u>Provisions for Estimated Payments</u>		
Administrators’ fees (unbilled January, February and March 2011)	906,243.83	
Administrators’ fees (forecast for 3 months)	845,110.00	
Legal costs (unbilled and forecast for 3 months)	341,000.00	
Trading costs (forecast for 3 months)	1,674,425.55	
SPF drawdowns	4,005,000.00	
Late payments in respect of first, second, third, fourth, fifth and sixth dividends ¹	84,686.40	
Further provision for costs	400,000.00	
		<u>(8,256,465.78)</u>
Provision for potential payments in respect of first, second, third, fourth, fifth and sixth interim dividends		(57,448,563.98)
Balance available for seventh interim dividend to unsecured creditors		70,256,558.95
Provision for potential payments in respect of seventh interim dividend ²		<u>(7,144,180.61)</u>
Dividend payable for seventh interim dividend to unsecured creditors		63,112,378.34

The estimated sum of £63,112,378.34 represents a dividend of c. 6.25 pence in the pound to unsecured creditors whose claims total £1,009,552,063.36.

¹This relates to payments made to creditors who did not prove their debts prior to the declaration of the first, second, third, fourth, fifth or sixth interim dividends

² Breakdown set out below

Provision for potential payments in respect of seventh interim dividend:

	Note	£	£
Estimated Employees' Claims	1		850,153.09
Trade Creditors	2		321,290.56
<u>Claims submitted by Landsbanki (each as defined below):</u>			
RCF Claim	3	85,985,378.60	
MPA Claim	4	17,122,221.92	
Guarantee Claim	5	0.00	
Subordinated Debt Claim	6	0.00	
			<hr/>
			104,279,044.17
General Provision	7		10,000,000.00
			<hr/>
Total Provisions			114,279,044.17
			<hr/>
Dividend of 6.25p/£			7,144,180.61

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 a claim made by Landsbanki for the balance drawn by the Company under the £400 million revolving credit facility between the parties dated 31 May 2002 (as amended) (the "**RCF Claim**"). The RCF Claim has been rejected by the Administrators in full. Landsbanki has appealed the rejection of the RCF Claim and under applicable Scottish legislation, the Company is required to make a provision for the dividend payable in respect of the full amount of the RCF Claim pending resolution of the appeal.
4. This relates to a claim made by Landsbanki under the Master Participation Agreement between the parties dated 29 May 2001 (the "**MPA Claim**"). The MPA Claim has been rejected by the Administrators in full. Landsbanki has appealed the rejection of the MPA Claim and, under applicable Scottish legislation, the Company is required to make a provision for the dividend payable in respect of the full amount of the MPA Claim pending resolution of the appeal.
5. This relates to a claim made by Landsbanki in respect of the guarantee dated 19 January 2004 pursuant to which Landsbanki agreed to guarantee all amounts owing by the Company to its other creditors (the "**Guarantee Claim**"). The Administrators have treated the Guarantee Claim as a contingent claim and attributed to it a value of zero. Although Landsbanki has appealed the valuation, it has confirmed that the Administrators do not presently need to make a provision in respect of this claim.
6. This relates to a claim made by Landsbanki for amounts borrowed by the Company under a £50 million subordinated loan agreement between the parties dated 13 August 2001 (the "**Subordinated Debt Claim**"). The Administrators have treated the Subordinated Debt Claim as a contingent claim and attributed to it a value of zero. Although Landsbanki has appealed the valuation, it has confirmed that the Administrators do not presently need to make a provision in respect of this claim.
7. The Administrators have made a general provision of £10 million for any unknown potential claims.

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

Name of Company Heritable Bank Plc (In Administration)	Company number SC000717
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(a) Insert full name(s) I / We (a) Alan Robert Bloom, Patrick Joseph Brazzill, Margaret Elizabeth Mills and Thomas Merchant Burton
and address(es) of
administrator(s) of Ernst & Young LLP, 1 More London Place, London SE1 2AF

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

from

to

(b) Insert date

(b)

1 January 2011

(b)

31 March 2011

Signed



Joint Administrator

Dated

11 May 2011

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

Toby Cooper	
Ernst & Young LLP, 1 More London Place, London SE1 2AF	
	Tel: 0207 518 3057
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