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

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

TO ALL KNOWN CREDITORS

11 August 2010

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

Direct line: 020 7951 3492

email: seast1@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 23 March 2010 to 30 June 2010 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 and 30 April 2010 (the "April 2010 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 three accounting periods. With the consent of the Company's creditors' committee, the fifth accounting period ended on 30 June 2010.

Summary of progress since the April 2010 Report

1. Deposits

1.2 Potential trust claims

As outlined in the Administrators' previous reports, the Administrators have investigated the extent to which certain sums received by the Company prior to the Administration and funds held in certain bank accounts may be subject to trust claims.

Since the April 2010 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.

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

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 c. £372.4 million (c. £317.2 million net of impairments). The book value as at the date of Administration has since been revised to c. £326.9 million following a write back of c. £9.7 million of impairments. Also included within the loan book are 99 short term funding loans ("STLB") with a net book value of c. £26.9 million 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 of the loan book 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 30 June 2010 totalled c. £304.7 million (including interest and fees) and remain ahead of forecast. This excludes c. £77 million 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. £173.3 million as at 30 June 2010. This comprised 127 loan redemptions and other capital receipts of c. £272.9 million, interest and fees of c. £10.2 million less draw-downs of c. £73.2 million and less payments to LBG (as defined below) of c. £38.6 million. The number of loans outstanding has decreased from 252 to 125 loans, with a net book value of c. £163.8 million.

The outstanding loan book comprises loans relating to: (i) land/sites (with and without planning) (16.0%); (ii) ongoing development projects (57.5%); and (iii) completed stock (26.5%).

The five largest borrower groups account for 46% 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 Administrators' 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 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") has been appointed.

To date the Administrators have issued formal demands on 83 borrowers and have appointed LPA Receivers in respect of properties held by 41 borrower groups. This includes appointments over the STLB loans managed by the SPF team.

2.1.2 STLB loan book

Net cash receipts in relation to the 99 development loans totalled c. £17.8 million as at 30 June 2010, comprising 27 loan redemptions and capital receipts of c. £21.6 million, less draw-downs of c. £3.8 million.

The number of loans outstanding has decreased from 99 to 72 loans, with a net book value of c. £9.1million.

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. Payments to LBG since the date of Administration total c. £38.6 million (compared with c. £38.2 million as detailed in the April 2010 Report). Such payments comprise of c. £36.6 million of capital receipts and c. £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 value of the RM loan book on appointment was c. £690.0 million (including c. £64.7 million in relation to the STLB). This has reduced to c. £432.0 million (net of impairments of £32.9 million) as at 30 June 2010. Creditors should be aware that c. £58.5 million (£26.9 million net of impairments) of the overall £258.0 million reduction has been a direct result of certain short term and other complex loans (including the STLB) being transferred from the RM division to the SPF division.

Receipts to date, including interest collections and redemptions, total c. £212.0 million. Draw-downs of c. £2.7 million (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 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 liability of c. £24.1 million as at the date of appointment. This subsequently reduced by c. £4.1 million by reason of set-off in relation to the Swaylands 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 c. £7.1 million to HCP, of which c. £6.4 million relates to Swaylands and c. £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 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 relation to this project) to the Company in full.

In relation to Neptune, the borrower has been granted planning permission for the Alperton site (undeveloped land) and is in the process of negotiating the section 106 planning agreement with Ealing Council, which is expected to be completed by 31 August 2010.

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. £23.0 million, representing a return on the remaining book of c. 83.0 pence in the pound.

As previously reported, the Administrators of HAF paid three interim dividends totalling c. £65.8 million (c. 87.4 pence in the pound). A final dividend of c. £5.9 million was paid on 30 June 2010. This final dividend resulted in total dividends of c. £71.7 million having been paid, which equates to an overall return to creditors of c. 95.4 pence in the pound. As HAF's largest creditor, the Company has received total dividends of c. £71.5 million.

As a final dividend has been paid and there are no remaining assets in HAF's estate, the Administrators of HAF intend to dissolve the company shortly.

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 April 2010 Report, one further 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 2009 and again in April 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 30 June 2010. This does not reflect estimated future realisations or costs.

To date receipts total c. £665.5 million. Cash at bank as at 30 June 2010 was c. £89.0 million (including £2.0 million held in relation to the cash collateral account described above) after total payments of c. £576.6 million.

For the period 22 March 2010 to 30 June 2010, receipts totalled c. £92.6 million and payments totalled c. £90.1 million (substantially comprising payments made to creditors in respect of the third interim dividend).

Please note that a fourth interim dividend of c. 6.3 pence in the pound, totalling c. £63.3 million, was paid on 15 July 2010 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. To date, the Administrators have incurred time costs of c. £15.1 million (including VAT) against which the sum of c. £15.1 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 £42,052 (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, 009.3 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	£8,149,924
In House and Pending Accounts – not paid by FSCS	£502,226
Landsbanki Guernsey	£34,347,647
Wholesale Deposits – not paid by FSCS	£414,943,788
Wholesale Deposits – FSCS	£1,621,427
Trade Creditors	£1,153,680
Employees	£1,486,692
RPO	£78,571
	£1,009,346,039

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 In-house account and pending accounts

The FSCS has determined that one claim of c. £0.1 million, previously considered ineligible for compensation under the scheme's rules is now eligible for compensation. As a result, the FSCS has paid this customer in full (less dividends paid by the Administrators to the customer).

Two other previous in-house depositors have stated they wanted to be removed from the creditor listing, these claims totalled £136.78.

9.3.3 Wholesale deposits

The FSCS has determined that one claim, previously considered ineligible for compensation under the scheme's rules, is now eligible for compensation. As a result, the FSCS has paid this customer in full (less dividends paid by the Administrators to the customer).

9.3.4 Other creditors

The Administrators have received claims of c. £1.5 million from other unsecured non-preferential creditors. These comprise amounts due to wholesale brokers and trade suppliers. We have admitted claims totalling c. £1.2 million for the purposes of the fourth interim dividend (claims of c. £1.1 million were admitted for the third dividend) and rejected claims totalling c. £0.2 million.

9.3.5 Employees

The non-preferential element of employees' claims admitted for the purposes of the fourth interim dividend totalled c. £1.5 million (claims of c. £1.4 million were admitted for the purposes of the third 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 c. £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 the Administrators' previous reports.

As at the date of the April 2010 Report, LIHF had submitted three claims in the Company's Administration, namely: (i) the RCF Claim; (ii) the Guarantee Claim; and (iii) the Subordinated Debt Claim (each term as defined in the Administrators' progress report dated 14 January 2010). The Administrators have rejected the RCF Claim in full in reliance on and by reason of insolvency set-off in the Administration. They have treated both the Guarantee Claim and the Subordinated Debt Claim as contingent claims and attributed to them a value of zero.

For the reasons as explained in the Administrators' previous report, the Company has also lodged four claims in LIHF's winding up. The claims were lodged, subject to various reservations, only for the purpose of preserving the set-off that had taken place under Scots law in the Company's Administration pending a determination by the Scottish Court of Session of the preliminary issues (as defined below). The Winding-up Board of LIHF has rejected three of the Company's four claims. The Company then sought a stay of further proceedings in Iceland pending a determination by the Scottish court of preliminary issues. However, the request for a stay was refused by the Icelandic courts. An earlier request to the Winding-up Board for a stay had also been rejected.

The dispute between the Company and LIHF in relation to the claims has continued and further action has been necessary in both Scotland and Iceland.

9.4.1.1 Scottish proceedings

Since the April 2010 Report, the Administrators have received an additional claim from LIHF for an amount of c. £17.1 million said to be owed under the terms of a Master Participation Agreement between the parties dated 29 May 2001 (the "Landsbanki MPA Claim"). The Landsbanki MPA Claim has been rejected by the Administrators in full on the basis that the sums claimed by LIHF are not due and payable by the Company under the terms of the Master Participation Agreement. In any event and in the alternative, the Administrators have set-off the value of the Company's counterclaims against LIHF against the value of the Landsbanki MPA Claim and on the basis, have asserted that the Landsbanki MPA Claim has been extinguished in full set-off.

On 30 June 2010, LIHF formally appealed the rejection of the Landsbanki MPA Claim. However, in anticipation of a decision by the Court of Session on the preliminary issues, the parties agreed to defer setting a formal timetable for the appeal process.

Under applicable Scottish legislation, the Company is required to make a provision for the dividend payable in respect of the full amount of the Landsbanki MPA Claim pending resolution of the appeal.

9.4.1.2 Icelandic proceedings

On 6 May 2010, the District Court of Reykjavik heard the Company's application requesting that the Icelandic proceedings be stayed until the Court of Session had ruled on the preliminary issues.

In its judgment of 17 May 2010, the District Court rejected the Company's request for a stay. Further, the District Court required the Company to submit its pleadings within a period of three weeks in support of its appeal against the Winding-up Board's treatment of its claims.

As the Court of Session had not made a decision on the preliminary issues by this stage and given that the applicable law remained untested, it was necessary for the Company to submit its pleadings as a protective measure.

These were therefore submitted to the District Court at a case management hearing on 8 June 2010. At the same hearing, the District Court ordered LIHF to deliver its response on 2 September 2010.

9.4.1.3 Interrelationship between the Scottish and Icelandic proceedings

The Company has maintained that the Scottish court has the jurisdiction to, and should, determine LIHF's liabilities to the Company for the purposes of the Scottish administration. In order to confirm that this is correct as a matter of Scots law, and that the Scottish

Administration will not be bound by a determination in the Icelandic claims adjudication process, the Administrators sought a hearing in the Scottish court on the effect of that process in the Scottish Administration.

At a procedural hearing on 6 May 2010, the Company asked the Scottish court to fix an urgent hearing on the question of:

(i) whether decisions of the Winding-up Board of LIHF or the Icelandic courts in relation to the extent of any liabilities owed by LIHF to the Company would be binding in the Company's Administration in Scotland under the applicable legislation; and

(ii) whether a judgment of the Icelandic courts can be binding in Scotland under the *res judicata* rule. This is the legal principle which states that, once a court with jurisdiction over a cause of action and the parties disposes of a matter, the same matter cannot be re-litigated between the parties in other proceedings (as they are bound by the judgment in the first set of proceedings),

together "the preliminary issues".

The Court of Session ordered a three-day hearing on the preliminary issues which was held in Edinburgh on 14 – 16 June 2010.

On 20 July 2010, the judge (Lord Glennie) issued his opinion on the preliminary issues deciding against the Company on both issues. He held, in brief summary, that: (i) the decisions of the Winding-up Board of LIHF and/or the Icelandic courts regarding the extent of any liabilities owed by LIHF to the Company <u>are</u> binding in the Company's Administration in Scotland under the applicable legislation; and (ii) a judgment of the Icelandic courts <u>can be binding</u> in Scotland under the *res judicata* rule.

The Administrators have sought and been granted leave to appeal the judge's decision on both issues and are continuing to assess their strategy in relation to the claims between the parties.

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 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)	£19,989,588
	£144,112,932

As previously reported, the Company's claim in the Administration of HAF has increased by c. £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 in the April 2010 Report, KBFC has paid the Company total dividends of c. £46.1 million and has now moved to dissolution.

HAF has paid the Company total dividends of c. £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 have 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; and

(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. The fourth dividend has been made in accordance with the scheme of division included in Appendix 4 to this report.

The Administrators intend to declare a fifth interim dividend in October 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)

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 fourth 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 30 June 2010

	Balance as at 22 March 2010	Movement from 22 March 2010 to 30 June 2010	Balance as at 30 June 2010
	£	£	£
Receipts			
SPF Interest	9,108,515	563,934	9,672,448.88
Mortgage Receipts	48,350,082	7,264,447	55,614,528.54
Sundry	163,625	(73,748)	89,876.90
Mortgage Redemptions	131,478,377	26,244,510	157,722,887.05
Funds due to Heritable Asset Finance	153,807	(153,807)	0
Funds from Aldermore Bank	-	158,062	158,061.85
SPF Plot Sale	229,953,629	52,037,928	281,991,556.70
SPF Capital Reduction	11,970,035	-	11,970,034.85
Receipts from ING	936,752	-	936,751.93
Refund of Cash Ratio from BOE	597,406	-	597,405.58
Financing	113,995	-	113,994.58
Bank Interest	444,478	68,672	513,150.39
Dividends From Subsidiaries	111,481,844	6,253,552	117,735,396.14
Intercompany Recharges	5,523,462	-	5,523,461.95
Cash at Bank	2,154,693	-	2,154,693
Bawag Loan	20,000,000	-	20,000,000.00
Dividends Received From Related Parties	7,550	-	7,550.00
Transfer from Direct Debit indemnity	-	92,187	92,187.29
Transfer from Claims Reserve	532,889	106,530	639,419.35
	572,971,137	92,562,268	665,533,405
Payments			
Direct Labour	12,067	-	12,066.75
Pension	647,366	66,143	713,508.71
Net Wages	4,274,000	613,596	4,887,596.42
Employees NIC Reimbursement	14,923	(550)	14,373
Employee Life Insurance	8,479	5,995	14,474
RML Other	5,595	65,150	70,744
Professional Fees	95,402	-	95,402
Scottish Lodgement Fee	15	-	15
Refund of overpayment	98,464	176	98,640
Business Rates	284,350	491,117	775,467
Repayment of post-appointment receipts	52,859	-	52,859
Employee Expenses	28,745	1,025	29,770
Sundry Expenses	114,416	34,272	148,689
Bank Charges and Interest	41,710	5,511	47,221
Administrators Fees	13,912,117	1,156,106	15,068,223
Administrators Disbursements	20,466	21,586	42,052
Legal Disbursements	72,298	-	72,298
Legal Fees	4,944,878	2,010,233	6,955,110
Loans to Subs	620	-	620
SPF - Legal	986,736	405,468	1,392,204
Purchase Orders/Trade Suppliers	4,272,902	(425,143)	3,847,760
SPF Drawdown	55,354,019	11,426,640	66,780,659
RML Drawdown	2,699,594	-	2,699,594
HCP Drawdown	599,474	11,963	611,437
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	-	39,499,490	39,499,490
Payments on behalf of HCP	5,143,116	2,402,235	7,545,352
Direct Debit Indemnity Claims	25,383	529	25,912
Insurance	97,545	74,159	171,704
PAYE	3,036,967	496,003	3,532,970
Transfer to HSBC DD Cash Collateral A/c	-	-	-
Newcastle building society	-	670,025	670,024.89
Payments to Landsbanki Guernsey	38,495,877	213,786	38,709,663
VAT Payment	1,690,866	153,304	1,844,170
Distribution to preferential creditors	36,698	-	36,698
First distribution to unsescured creditors	181,473,276	(18,276,576)	163,196,701
Second distribution to unsecured creditors	142,157,561	(14,425,147)	127,732,414
Third distribution to unsecured creditors	-	62,482,261	62,482,261
Catch up payments for previous dividends	-	68,979	68,979
Oakwood Management Fee	1,397,341	704,233	2,101,574
Assignment of VAT Liability	128,165	-	128,165
Petty Cash	5,500	2,000	7,500
HMRC tax/nic deductions re emp dividend	-	34,391	34,391
VAT payable	70,223	97,095	167,319
	486,487,120	90,086,054	576,573,174
	86,484,016	2,476,214	88,960,230
Represented By:			
Royal Bank of Scotland	52,688,621	14,871,249	67,559,870
HSBC Current Account	8,081,770	1,518,826	9600596.73
HSBC - SPF account	23,713,595	(13,913,850)	9,799,744
DD Cash Collateral Account	2,000,000	-	2,000,000
Euro current account	30	(11)	19
	86,484,016	2,476,214	88,960,230

Appendix 2

Heritable Bank Plc (In Administration)

Summary of Joint Administrators' time-costs and category 2 disbursements from 7 October 2008 to 30 June 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 and Statutory Duties	195.60	11.90	598.70	515.70	1,055.50	4,809.10	7,186.50	243.24	**1,748,035.50**
Creditors	183.50	22.50	290.10	584.60	1,687.90	1,555.30	4,323.90	263.78	**1,140,543.50**
Employee Matters	40.60	-	149.80	72.50	512.60	28.30	803.80	331.96	**266,831.00**
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	258.63	**19,397.50**
Legal Issues	61.30	2.00	15.50	-	1.50	5.30	85.60	616.93	**52,809.10**
Other Assets	10.00	-	6.00	75.50	20.80	16.00	128.30	376.44	**48,297.00**
Public Relations	6.10	4.00	6.00	3.00	-	-	19.10	450.79	**8,610.00**
Residential Mortgage	179.00	321.40	577.60	1,054.80	985.10	383.90	3,501.80	386.05	**1,351,853.50**
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	34.00	-	182.50	664.50	516.00	219.30	1,616.30	328.28	**530,596.00**
Retention of Title	1.50	-	1.10	-	5.50	-	8.10	356.36	**2,886.50**
Sale Process	60.50	115.00	80.50	105.00	606.00	55.00	1,022.00	419.71	**428,947.50**
Structured Property Finance	424.20	859.30	2,578.20	2,491.30	5,622.00	697.00	12,672.00	432.54	**5,481,088.00**
Steps pre-appointment	12.00	4.00	15.00	-	-	-	31.00	590.00	**18,290.00**
Trading	2.50	-	389.30	801.70	834.20	490.90	2,518.60	309.21	**778,782.50**
VAT & Taxation	99.90	194.80	468.20	328.40	582.20	116.50	1,790.00	570.76	**1,021,665.00**
Wholesale Depositors	-	-	-	-	25.60	40.00	65.60	207.07	**13,584.00**
Grand Total	**1,331.20**	**1,667.20**	**6,247.30**	**6,848.00**	**12,648.40**	**8,454.60**	**37,196.70**	**308.47**	**13,574,328.60**

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

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)

Scheme of division in respect of the fourth interim dividend as at 30 June 2010

	£	£
Balance of Receipts and Payments account		86,960,259.03
Balance of Reserve account		39,427,002.66
<u>Provisions for Estimated Payments</u>		
Administrators' fees (unbilled May and June)	801,313.02	
Administrators' fees (forecast for 3 months)	1,055,955.00	
Legal costs (unbilled and forecast for 3 months)	1,045,687.13	
Trading costs (forecast for 3 months)	1,213,009.98	
SPF drawdowns	5,136,000.00	
Provision for the three interim dividends paid to date in relation to the Landsbanki MPA Claim	5,989,106.38	
Late payments in respect of first, second and third dividends[1]	52,363.42	
Further provision for costs	206,565.07	
		(15,500,000.00)
Provision for potential payments in respect of first, second and third interim dividend		(39,427,002.66)
Balance available for fourth interim dividend to unsecured creditors		71,460,259.03
Provision for potential payments in respect of fourth interim dividend[2]		(8,129,717.14)
Dividend payable for fourth interim dividend to unsecured creditors		63,330,541.89

The estimated sum of £63,330,541.89 represents a dividend of c.6.27 pence in the pound to unsecured creditors whose claims total £1,009,346,039.02.

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

[2] Breakdown set out below

Provision for potential payments in respect of fourth interim dividend:

	Note	£	£
Estimated Employees' Claims	1		1,201,883.67
Trade Creditors	2		259,876.02
<u>Claims submitted by LIHF:</u>			
RCF Claim	3	85,985,378.60	
Landsbanki MPA Claim	4	17,122,221.92	
Guarantee Claim	5	0.00	
Subordinated Debt Claim	6	0.00	
			104,569,360.21
General Provision	7		25,000,000.00
Total Provisions			129,569,360.21
Dividend of 6.27p/£			8,129,717.14

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 RCF Claim which has been rejected by the Administrators in full. LIHF 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 the Landsbanki MPA Claim which has been rejected by the Administrators in full. LIHF has appealed the rejection of the Landsbanki 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 Landsbanki MPA Claim pending resolution of the appeal.
5. This relates to the Guarantee Claim which the Administrators have treated as a contingent claim and attributed to it a value of zero. Although LIHF 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 the Subordinated Debt Claim which the Administrators have treated as a contingent claim and attributed to it a value of zero. Although LIHF 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 £25m for any unknown potential