KPMG

Dunfermline Building Society
(in building society special administration)

Joint administrators' sixth progress report to creditors pursuant to Rules 26 to 29 of The Building Society Special Administration (Scotland) Rules 2009

27 February 2012

KPMG LLP
27 February 2012
This report contains 14 Pages

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Contents

Appendices

Notice: About this Report

This Report has been prepared by the Joint Building Society Special Administrators of Dunfermline Building Society ("DBS"), solely to comply with their statutory duty under the Rules (26 to 29) of The Building Society Special Administration (Scotland) Rules 2009, to provide the creditors with an update on the progress of the Administration, and for no other purpose. It is not suitable to be relied upon by any other person, or for any other purpose, or in any other context.

This Report has not been prepared in contemplation of it being used, and is not suitable to be used, to inform any investment decision in relation to the debt of or any financial interest in DBS.

Any estimates of outcomes for creditors included in this report are illustrative only and cannot be relied upon as guidance as to the actual outcomes for creditors. Any person choosing to rely on this report for any purpose or in any context other than under Rules 26 to 29 does so at their own risk.

To the fullest extent permitted by law, the Joint Building Society Special Administrators (the "Joint Administrators") do not assume any responsibility and will not accept any liability in respect of this report. Blair Nimmo is authorised to act as an insolvency practitioner by the Institute of Chartered Accountants of Scotland; Richard Heis and Mike Pink by the Institute of Chartered Accountants in England & Wales and Richard Fleming by the Insolvency Practitioners Association.

The Joint Administrators act as agents for DBS and contract without personal liability. The appointments of the Joint Administrators are personal to them and, to the fullest extent permitted by law; KPMG LLP does not assume any responsibility and will not accept any liability to any person in respect of this Report or the conduct of the Administration.

1 Glossary

BoE	Bank of England
Bridge Bank	DBS Bridge Bank Limited - an SPV set up by the Bank of England in order to assist in the facilitation of the transfer of certain assets and liabilities from DBS to NBS.
BSSAR	Building Society Special Administration (Scotland) Rules 2009.
DBS	Dunfermline Building Society.
HMT	Her Majesty's Treasury.
Joint Administrators	The joint building society special administrators, being Richard Heis, Mike Pink and Richard Fleming of KPMG LLP, 8 Salisbury Square, London EC4Y 8BB and Blair Nimmo of KPMG LLP, Saltire Court, Castle Terrace, Edinburgh EH1 2EG – appointed on 30 March 2009.
NBS	Nationwide Building Society.
Objective 1	Objective 1 is to ensure the supply to Nationwide Building Society and/or DBS Bridge Bank Limited of such services and facilities as are required to enable it, in the opinion of the Bank of England, to operate effectively.
Objective 2	Objective 2 is to:- a) rescue the residual bank as a going concern, or b) achieve a better result for the residual bank's creditors as a whole than would be likely if the residual bank were wound up without first being in bank administration.
PTI	Property Transfer Instrument made by the BoE transferring all or part of the business of DBS to NBS (via Bridge Bank).
The Rules	The Building Society Special Administration (Scotland) Rules 2009
Pension Trustees	The Trustees of the Dunfermline Building Society 1974 Pension and Life Assurance Scheme.

2 Introduction

We, Richard Heis, Blair Nimmo, Mike Pink and Richard Fleming of KPMG, were appointed Joint Administrators of DBS on 30 March 2009, by an order made by the Court of Session in Edinburgh under an application made by the BoE under the BSSAR (which was enacted following the Banking Act 2009 that had introduced the Special Resolution Regime). The functions of the Joint Administrators may be performed jointly or by any of them individually.

In accordance with the Rules we set out below our sixth progress report to creditors. However, the disclosure of certain sensitive information relating to certain assets and liabilities could seriously prejudice the commercial interests of DBS and its creditors and so this information has been either excluded from this report or abbreviated in order to preserve value for the benefit of creditors.

The cumulative receipts and payments account for the period 30 March 2009 (the date of appointment) to 30 January 2012 is attached at Appendix 3. This shows funds in hand totalling £39.31 million as at 30 January 2012.

We outline below the progress of the administration and provide details of realisations to date.

3 Assets

3.1 Treasury assets

As at 30 January 2012 we have realised approximately £165.9 million of principal and £6.0 million of interest relating to these assets. The estimated mark-to-market of the remaining assets at 30 January 2011 was £26.0 million (face value: £26.5 million); thus we have now realised over 85% of the treasury assets held at the date of our appointment. A further £11 million is anticipated to be realised in the next three months. We continue to monitor the remaining assets, and our strategy remains to hold them to maturity/repayment.

3.2 Commercial loan portfolio

As at 30 January 2012, capital realisations from the commercial loan book totalled £133.4 million, together with £52.2 million of interest and charges; representing additional receipts of £31.3 million and £11.0 million respectively since our previous report.

The estimated realisable value of the remaining commercial loans is commercially sensitive information and the joint administrators continue to believe that disclosure of those estimates herein could seriously prejudice the commercial interests of DBS and its creditors; therefore, as previously, this information has been excluded from this report.

We continue to hold a small number of cash deposits from commercial borrowers (at RBS) on trust, as collateral against their loans. The total held as at 30 January 2012 had reduced to £0.35 million as monies have been applied against the borrowers' mortgage obligations.

We continue to assess conditions in the wholesale lending markets at frequent intervals, relative to our current strategy of working-out the loan book, with a view to achieving the best net outcome for creditors as a whole. At this time our analysis indicates that working out the loans (i.e. collecting revenue, restructuring and accepting redemptions or, where necessary, enforcing security rights in respect of the loans) is likely to achieve the best return for creditors. However this strategy remains under constant review and we may, if the conditions are considered right in due course, look to sell some or all of the loan portfolios.

3.3 Retail loan portfolio

As previously reported, the retail loan portfolio is serviced by Target Group ("Target"), our appointed third party mortgage servicer. The Joint Administrators continue to oversee Target and retain the key strategic management and controls over the assets. We continue to focus our efforts on minimising the level of borrower arrears and ensuring that borrower redemptions are dealt with in an efficient manner.

As at 30 January 2012, we have realised approximately £38.7 million of capital and £16.0 million of interest and charges from the retail portfolio; representing additional receipts of £9.0 million and £2.9 million respectively since our previous report.

3.4 Equity Release

By 30 January 2012, we had received some £9.2 million of annuity payments from Munich Re and PAL, plus a further £0.05 million of associated fee income in respect of this portfolio. Target continue to service this portfolio, under our supervision.

The special administrators now intend to test the market within the next few months for the possible sale of one or both of the annuity portfolios with Munich Re and PAL. Given the relatively long-tail run-off of these annuities it may be more cost effective for the estate to sell these now rather than work them out to maturity.

3.5 Investments in subsidiaries and other shareholdings

As previously reported, Dunfermline Commercial Finance Limited ("DCF") is a subsidiary of DBS, and in members' voluntary liquidation. In the last six months a distribution of £1.28 million has been received from DCF in respect of the 100% shareholding.

Final costs of the liquidation have been drawn from the estate and all that remains to be collected by the liquidators' of DCF is the final tax repayment of approximately £3,500. This is expected to be received in the next few weeks, after which the remaining balance held in that estate will be distributed to DBS and the liquidation will be closed.

3.6 Bank interest

As at 30 January 2012, some £1.66 million of bank deposit interest has been received since the commencement of the administration.

The Joint Administrators continue to manage cash balances held in the estate to ensure a fair market interest rate is obtained whilst also seeking to minimise credit risk in doing so.

3.7 Assets remaining to be realised

The loan portfolios represent the largest assets remaining to be realised, in particular the commercial loan portfolio which represents over 75% of the gross book value of all unrealised assets. Whilst we are not currently marketing the portfolios for sale, we regularly review our strategy in relation to these assets by monitoring the market with a view to identifying opportunities for opportunistic sales of assets where they can be achieved at a value which we believe will maximise the return to creditors of DBS.

4 Liabilities

4.1 Unsecured creditors

As previously reported, at the end of July 2010, the Joint Administrators agreed and paid 100p in the £ dividend to non-subordinated unsecured creditors totalling £473.72 million. Following a directions hearing at the Court of Session, the Court determined that the Subordinated notes ranked for payment after any statutory interest was payable to both unsecured creditors and HMT's second liability claim.

Accordingly, in September 2011 we made a payment of statutory interest to all agreed unsecured creditors, in accordance with Rule 4.66 of the Insolvency (Scotland) Rules 1986, at the applicable rate of interest of 15%. These payments totalled some £81.9 million.

4.2 HMT second liability

Since the date of the last report, £150 million has been paid to HMT in respect of its' second liability claim. It is unclear at this stage what the total quantum of distribution HMT will ultimately receive in respect of their second liability claim, or the timing of future cash flows, as these depend upon future realisations from the remaining assets of DBS.

4.3 Subordinated loan notes

Following the directions hearing mentioned above, it was determined that the £50.0 million of 6% Subordinated Notes, due to be redeemed on 31 March 2015, rank for distribution behind unsecured creditors, HMT's second liability claim and statutory interest on those claims. It is therefore extremely unlikely that there will be any distribution in respect of the Subordinated loan notes.

5 Other matters

5.1 Meeting of creditors

Following the outcome of the directions hearing, the meeting of creditors was convened on 3 November 2011 at KPMG LLP, 8 Salisbury Square, London. Notice of the meeting was given in the Edinburgh Gazette on 18 October 2011. The following resolutions were approved:

- The Joint Building Society Special Administrators' Proposals dated 20 October 2010 were approved without modification.
- No Creditors' Committee was formed and in the absence of a Committee, the Joint Building Society Special Administrators' remuneration will be based upon

time costs properly incurred at KPMG LLP time rates determined in accordance with Rule 2.39 of the Insolvency (Scotland) Rules 1986.

6 Joint Administrators' fees

I enclose, at Appendix 3, an analysis of our time and costs properly charged since our last report between 2 July 2011 and 27 January 2012. During this period, a total of 6,128 hours were spent by me and my firm's staff in relation to the activities listed in Appendix 3 at a total cost of £2,410,117. Since the date of our last report, fees have been approved and drawn up to and including 2 November by the Bank of England, in accordance with the BSSAR of approximately £1.648 million.

Should you have any queries, please do not hesitate to contact my colleague Rebecca McDonnell on 0207 311 4350.

M R Pink
Joint Building Society Special Administrator

Appendix 1

Statutory and other information

Statutory and other information

Relevant court

The Building Society Special Administration Order was made in the Court of Session in Edinburgh on 30 March 2009.

Registered office and trading address

At the date of appointment (30 March 2011) the former registered office of Dunfermline Building Society was situated at:

Caledonia House
Carnegie Avenue
Dunfermline
Fife KY11 8PJ

As part of the Administration process, the registered office for the Company was changed to:-

191 West George Street
Glasgow
G2 2LJ

Joint Administrators and their functions

Richard Heis, Mike Pink and Richard Fleming of 8 Salisbury Square, London EC4Y 8BB and Blair Nimmo of Saltire Court, Castle Terrace, Edinburgh EH1 2EG were appointed as Joint Administrators of DBS on 30 March 2009. All of the Joint Administrators act jointly and severally in the pursuance of Objective 2 of the Building Society Special Administration of DBS.

Appendix 2

Transfer of business, assets and liabilities

As noted in our first progress report, the two PTIs issued by the BoE have resulted in all property, rights and liabilities (including the DBS brand name and all property, rights and liabilities that fall within any of the descriptions specified in section 35(1) of the Banking Act) of DBS being transferred to NBS other than excluded property, rights and liabilities as set out below:

a) the Bridge Bank business;
b) certain treasury assets;
c) all property, rights and liabilities in respect of the £50,000,000 6 per cent. Subordinated Notes due 2015 issued by DBS;
d) all property, rights and liabilities in respect of acquired mortgage loans;
e) all property, rights and liabilities in respect of commercial loans;
f) the shares held by Dunfermline in Dunfermline Solutions Limited, Dunfermline Commercial Finance Limited and Dunfermline Development Services Limited and any rights (including membership rights) and liabilities of DBS in respect of Funds Transfer Sharing Limited;
g) certain rights and liabilities of DBS in respect of shares held by shareholding members;
h) all rights and liabilities in respect of tax;
i) all rights, obligations and liabilities under or in respect of the DBS pension scheme;

The above listing is not exhaustive but sets out materially the essence of the PTI.

Certain other assets and liabilities were also transferred to Bridge Bank as part of the second PTI as follows:

a) All property, rights and liabilities in respect of the housing association loans together with the related housing association.

b) All property, rights and liabilities in respect of any customer databases owned by DBS relating exclusively to the property, rights and liabilities referred to above.

Appendix 3

Administrators' cumulative receipts and payments accounts to 30 January 2012

Administration cumulative receipts and payments account to 30 January 2012

	30/03/2009 to 30/07/2011	31/07/2011 to 30/01/2012	30/03/2009 to 30/01/2012
Receipts	**£'000**	**£'000**	**£'000**
Bridge Bank resolution fund	356,652	0	356,652
Treasury assets (interest)	5,905	138	6,043
Treasury assets (capital)	150,154	15,704	165,858
Commercial portfolio realisations (interest)	42,162	9,996	52,158
Commercial portfolio realisations (capital)	103,638	29,733	133,371
Retail portfolio realisations (interest)	13,138	2,843	15,981
Retail portfolio realisations (capital)	29,693	8,963	38,656
Loan collected on behalf of sub – DCF(1)	348	0	348
Borrower receipts awaiting allocation (2)	4,465	129	4,593
Equity release funds received	6,845	2,325	9,171
Bank interest	1,315	343	1,658
Tax refund	7,354	0	7,354
Distributions from subsidiaries	0	1,280	1,280
Sub total	**721,668**	**71,461**	**793,129**
Net commercial deposits (held on behalf of depositors) (3)	353	(156)	198
Total receipts	**722,021**	**71,305**	**793,327**

Payments

Drawdown payments (commercial)	(4,839)	(29)	(4,868)
Drawdown payments & servicing costs (equity release)	(1,157)	(334)	(1,490)
Swap closure costs	(4,506)	0	(4,506)
Loan servicing costs	(2,760)	(245)	(3,005)
Agents fees (charged to customers) (4)	(1,960)	(14)	(1,974)
Onward payment of debt collected on behalf of subsidiary – DCF (1)	(348)	0	(348)
Administrators' fees	(16,721)	(1,648)	(18,369)
Administrators' expenses	(437)	(15)	(452)
Legal costs	(3,217)	(438)	(3,655)
Professional advisors fees	(984)	(734)	(1,718)
Agents fees and other administrative costs	(2,626)	(657)	(3,283)
Irrecoverable VAT	(3,758)	(742)	(4,501)
Force majeure payments to unsecured creditors	(282)	0	(282)
HMT - first liability	(427,538)	0	(427,538)
HMT – second liability	0	(150,000)	(150,000)
Distribution to other unsecured creditors	(7,351)	0	(7,351)
Statutory interest to unsecured creditors	0	(81,850)	(81,850)
Pension fund	(38,826)	0	(38,826)
Total payments	**(517,310)**	**(236,706)**	**(754,015)**
Net funds in hand	**204,712**	**(165,400)**	**39,311**
Less: Monies due to depositors	(353)	156	(197)
	204,359	**(165,244)**	**39,114**

(1) A debt owed to DCF by Nationwide Building Society was paid directly to DBS. These funds were subsequently paid across to the liquidator of DCF.

(2) Monthly receipts from borrowers include interest, capital and fees, largely made up of prepayments not yet allocated to customer accounts.

(3) Represents the net commercial collateral deposits held with RBS on trust

Appendix 4

Joint Administrators' time costs from 2 July 2011 to 27 January 2012

Statement of Insolvency Practice 9: summary of Administrators' time costs for the Period from 2 July 2011 to 27 January 2012

	Breakdown of hours charged by grade					
	Partner/ Director	**Manager**	**Administrator/Support**	**Total hours**	**Time cost**	**Average hourly rate**
Charge out rate by grade per hour	**£600-690**	**£390-490**	**£110-275**			
Accounting & Administration	23.80	319.00	255.71	598.51	205,823.65	343.89
Bank & Statutory Reporting	9.90	102.20	452.50	564.60	173,625.50	307.52
Commercial portfolio	380.40	2,274.75	515.55	3,170.70	1,366,654.50	431.03
Creditors and claims	43.70	75.60	218.70	338.00	116,793.50	345.54
Equity Release portfolio	14.20	232.45	63.60	310.25	121,621.50	392.01
Pension and other employee matters	6.90	2.45	36.20	45.55	15,127.00	332.10
Retail portfolio	21.90	147.70	413.90	583.50	192,684.00	330.22
Statutory and compliance	93.30	81.00	36.90	211.20	97,085.75	459.69
VAT & Taxation	40.40	204.50	60.75	305.65	120,701.25	394.90
Total in period	**634.50**	**3,439.65**	**2,053.81**	**6,127.96**	**2,410,116.65**	**393.30**

Note
The rates applicable above have been approved by the Bank of England prior to the initial meeting of creditors' held on 2 November 2011, in accordance with the BSSAR. Rates after this date are subject to further approval by creditors.