

Banking Act 2009 as applied by The Building Societies (Insolvency and Special Administration) Order 2009

## Administrator's progress report

Pursuant to the Banking Act 2009 as applied by The Building Societies (Insolvency and Special Administration) Order 2009 and under Rules 26 to 29 of The Building Society Special Administration (Scotland) Rules 2009

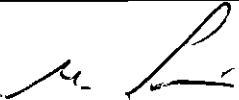
Name of Building Society  Dunfermline Building Society (in building society special administration)	FSA number  9B(S)
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(a) Insert full name(s) and address(es) of administrator(s)

We (a) Richard Heis, Michael Robert Pink and Richard Dixon Fleming, all of KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB and Blair Carnegie Nimmo of KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG, Joint Building Society Special Administrators of the above building society attach a progress report for the period

(b) Insert dates

from	to
(b) 31 January 2012	(b) 30 July 2012

Signed   
 Joint Building Society Special Administrator

Dated 24 AUGUST 2012.

### Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help the Financial Services Authority 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

Rebecca McDonnell	
KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB	
	Tel - 0207 311 4350
DX Number	DX Exchange



**Dunfermline Building Society**  
**(in building society special administration)**

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

24 August 2012

KPMG LLP  
24 August 2012



23 August 2012

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23 August 2012

## **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 seventh 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 July 2012 is attached at Appendix 3. This shows funds in hand totalling approximately £25.0 million as at 31 July 2012.

We outline below the progress of the administration over the last six months and provide details of realisations to date.

## 3 Assets

### 3.1 Treasury assets

As at 30 July 2012 we had realised approximately £183.7 million of principal and £6.4 million of interest relating to these assets. The remaining treasury assets are products with maturity dates of over 30 years in the future, and our strategy remains to hold and collect interest on these assets, whilst we continue to monitor the market for a potential sale.

### 3.2 Commercial loan portfolio

As at 30 July 2012, capital realisations from the commercial loan book totalled £159.2 million, together with £59.3 million of interest and charges; representing additional receipts of £25.8 million and £7.1 million respectively since our previous report.

As advised in previous reports, 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 July 2012 had



reduced to £42,000 as monies have been applied against the borrowers' mortgage obligations.

As we have advised in previous reports, 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 present we continue to work out the loans; 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, whilst the loans are worked out. 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 July 2012, we have realised approximately £44.2 million of capital and £18.4 million of interest and charges from the retail portfolio; representing additional receipts of £5.5 million and £2.4 million respectively since our previous report.

### **3.4 Equity Release**

By 30 July 2012, we had received some £11.3 million of annuity payments from Munich Re and PAL, representing receipts of approximately £2.2 million since our last report. Target continues to service this portfolio, under our supervision.

The special administrators recently commenced marketing the IRS annuities portfolio for sale and we hope to update on developments in the next six monthly report.



### **3.5 Investments in subsidiaries and other shareholdings**

We have previously reported that, Dunfermline Commercial Finance Limited ("DCF") is a subsidiary of DBS, is in members' voluntary liquidation, and we have received to date a total of £1.4 million from DCF in respect of the 100% shareholding. This represents a further £128,000 of realisations since the last report.

Final costs of the liquidation have now been drawn from the estate and all liabilities have been met. A final meeting has been called for September 2012, after which the estate will be closed.

### **3.6 Bank interest**

As at 30 July 2012, some £1.7 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.



## 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.

Furthermore, in September 2011 we made a payment of some £81.9 million of statutory interest to all agreed unsecured creditors.

### 4.2 HMT Second Liability

By 30 July 2012 a further £70 million had been paid to HMT in respect of its' Second Liability claim since the date of our last report, bringing the total paid to date to £220 million (i.e. 20% of the total Second Liability claim). As we have previously advised, it is unclear at this stage what the total quantum of distribution HMT will ultimately receive in respect of its 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

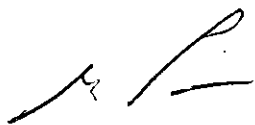
As previously reported, it is extremely unlikely that there will be any distribution in respect of the Subordinated loan notes.

## 5 Other matters

### 5.1 Joint Administrators' fees

I enclose, at Appendix 4, an analysis of our time and costs properly charged since our last report between 28 January 2012 and 27 July 2012. During this period, a total of 5,599.50 hours were spent by me and my firm's staff in relation to the activities listed in Appendix 4 at a total cost of £2,235,361.50. To date, fees have been approved and drawn up to and including 29 June 2012 by HMT, in accordance with the BSSAR.

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



*Dunfermline Building Society  
(in building society special administration)  
Joint administrators' progress report to creditors pursuant to Rule 2.38 of  
the Insolvency (Scotland) Rules 1986  
KPMG LLP  
23 August 2012*

## **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.



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KPMG LLP  
23 August 2012*

### **Appendix 3**

#### **Administrators' cumulative receipts and payments accounts to 30 July 2012**



**Administration cumulative receipts and payments account to  
30 July 2012**

	30/03/2009 to 30/01/2012	31/01/2012 to 30/07/2012	30/03/2009 to 30/07/2012
	£'000	£'000	£'000
<b>Receipts</b>			
Bridge Bank resolution fund	356,652	0	356,652
Treasury assets (interest)	6,043	336	6,379
Treasury assets (capital)	165,858	17,888	183,746
Commercial portfolio realisations (interest)	52,158	7,094	59,252
Commercial portfolio realisations (capital)	133,371	25,816	159,187
Retail portfolio realisations (interest)	15,981	2,401	18,382
Retail portfolio realisations (capital)	38,656	5,552	44,208
Loan collected on behalf of sub – DCF <sup>(1)</sup>	348	0	348
Borrower receipts awaiting allocation <sup>(2)</sup>	4,601	(1,350)	3,251
Equity release funds received	9,171	2,160	11,331
Bank interest	1,658	17	1,675
Tax refund	7,354	-	7,354
Distributions from subsidiaries	1,280	637	1,917
<b>Sub total</b>	<b>793,131</b>	<b>60,551</b>	<b>853,682</b>
Net commercial deposits (held on behalf of depositors) <sup>(3)</sup>	198	(156)	42
<b>Total receipts</b>	<b>793,329</b>	<b>60,395</b>	<b>853,724</b>



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*23 August 2012*

## Payments

Drawdown payments (commercial)	(4,868)	(36)	(4,904)
Drawdown payments & servicing costs (equity release)	(1,490)	(273)	(1,763)
Swap closure costs	(4,506)	0	(4,506)
Loan servicing costs	(3,005)	(283)	(3,288)
Agents fees (chargeable to customers)	(1,974)	666	(1,308)
Onward payment of debt collected on behalf of subsidiary – DCF (1)	(348)	0	(348)
Administrators' fees	(18,369)	(2,749)	(21,118)
Administrators' expenses	(452)	(18)	(470)
Legal costs	(3,655)	(157)	(3,812)
Professional advisors fees	(1,718)	(435)	(2,153)
Agents fees and other administrative costs	(3,283)	(590)	(3,873)
Irrecoverable VAT	(4,501)	(826)	(5,327)
Force majeure payments to unsecured creditors	(282)	0	(282)
HMT - first liability	(427,538)	0	(427,538)
HMT – second liability	(150,000)	(70,000)	(220,000)
Distribution to other unsecured creditors	(7,351)	0	(7,351)
Statutory interest to unsecured creditors	(81,850)	0	(81,850)
Pension fund	(38,826)	0	(38,826)
<b>Total payments</b>	<b>(754,016)</b>	<b>(74,701)</b>	<b>(828,717)</b>
<b>Net funds in hand</b>	<b>39,313</b>	<b>(14,306)</b>	<b>25,007</b>
Less: Monies due to depositors	(198)	156	(42)
	<b>39,115</b>	<b>(14,150)</b>	<b>24,965</b>

(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



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## **Appendix 4**

**Joint Administrators' time costs from 28 January 2012 to 27 July 2012**





**Dunfermline Building Society**  
*(in building society special administration)*  
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**Statement of Insolvency Practice 9: summary of Administrators' time costs for the**  
**Period from 28 January 2012 to 27 July 2012**

	Breakdown of hours charged by grade			Total hours	Time cost	Average hourly rate
	Partner/ Director	Manager	Administrator/S upport			
<b>Charge out rate by grade per hour</b>	<b>£600-690</b>	<b>£390-490</b>	<b>£110-275</b>			
Accounting & Administration	23.40	474.75	433.35	931.50	342,616.75	367.81
Bank & Statutory Reporting	31.00	166.00	18.70	215.70	88,231.00	409.04
Commercial portfolio	283.70	1,942.75	488.75	2,715.20	1,154,237.75	425.10
Creditors and claims	19.90	4.60	15.90	40.40	16,841.00	416.86
Equity Release portfolio	158.60	454.60	326.50	939.70	364,774.00	388.18
Pension and other employee matters	1.80	0.25	9.50	11.55	3,841.00	332.55
Retail portfolio	8.50	181.50	376.50	566.50	188,644.50	333.00
Statutory and compliance	16.10	22.00	28.65	66.75	26,812.00	401.68
VAT & Taxation	27.30	83.40	1.50	112.20	49,318.50	439.56
<b>Total in period</b>	<b>570.30</b>	<b>3,329.85</b>	<b>1,699.35</b>	<b>5,599.50</b>	<b>2,235,316.50</b>	<b>399.20</b>