

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

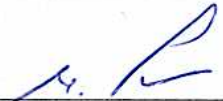
Name of Building Society  Dunfermline Building Society (in building society special administration)	FSA number  9B(S)
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(a) Insert full name(s) and address(es) of administrator(s)

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 2011	(b) 30 July 2011

Signed   
 Joint Administrator

Dated 8 August 2011

### 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' fifth progress  
report to creditors pursuant to Rules 26  
to 29 of  
The Building Society Special  
Administration (Scotland) Rules 2009

8 August 2011

KPMG LLP

8 August 2011

*This report contains 19 Pages*



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*Joint administrators' progress report to creditors pursuant to Rule 2.38 of  
the Insolvency (Scotland) Rules 1986  
KPMG LLP*

*8 August 2011*

## **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.



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*8 August 2011*

## 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 fifth 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 2011 is attached at Appendix 2. This shows funds in hand totalling £204.4 million as at 30 July 2011.

## 3 Assets

### 3.1 Objective 2 of the BSSAR

As previously reported, Objective 1 has been satisfied and now the Joint Administrators' are focussed solely on Objective 2(b), which is to achieve a better result for DBS's creditors as a whole than if DBS were wound up. We outline below the progress of the administration and provide details of realisations to date.

### 3.2 Treasury assets

As at 30 July 2011 we have realised approximately £150.15 million of principal and £5.9 million of interest relating to these assets. The estimated mark-to-market of the remaining assets at 29 July 2010 (the last trading day of this reporting period) was £44.2 million (face value: £44.7 million); thus we have now realised over 80% of the treasury assets held at the date of our appointment. Of the remainder, over 70% by value are anticipated to be realised within the next 12 months. We continue to monitor the remaining assets, and our strategy remains to hold them to maturity/repayment as the returns remain as good, or better, than could be achieved by investing the money elsewhere.

### 3.3 Commercial loan portfolio

As at 30 July 2011 capital realisations from the commercial loan book totalled £102.14 million, together with £41.19 million of interest and charges; representing additional receipts of £25.59 million and £8.14 million respectively since our previous report. The



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estimated realisable value of the remaining commercial loans is commercially sensitive information and the joint administrators believe 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. In accordance with the deposit terms a number of receipts and payments have been made from these accounts in the period in respect of rental income and mortgage payments and the total held as at 30 July 2011 was £0.4 million.

We have recently carried out a detailed review of our strategy in relation to the realisation of these assets and the strategy for dealing with these loans remains, for the foreseeable future, to work-out the loans (i.e. collect revenue, restructure and accept redemption or where necessary enforce security rights in respect of the loans) in order to maximise realisations (net of collection costs) for the benefit of the creditors. We continue to assess the markets at frequent intervals and may, if the conditions are considered right in due course, look to sell some or all of the loan portfolios with a view to achieving the best net outcome for creditors as a whole.

### **3.4 Retail loan portfolio**

As previously reported, the retail loan portfolio is serviced by Target Group ("Target"), the third party mortgage servicer. The Joint Administrators continue to oversee these services and retain the key strategic management and controls over the assets.

As at 30 July 2011 we have realised approximately £29.69 million of capital and £13.14 million of interest and charges from the retail portfolio; representing additional receipts of £6.25 million and £2.57 million respectively since our previous report.

### **3.5 Equity Release**

By 30 July 2011, we had received £6.85 million of annuity payments from Munich Re and PAL, plus a further £0.01million of associated fee income in respect of this portfolio. As you are aware, following the insolvency of the third party mortgage administrator (IRS), Target were appointed to service this portfolio, and to 30 July 2011 we have paid £0.19 million in servicing costs and incurred additional set up, insurance and legal costs of £0.25 million.

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

As previously reported, Dunfermline Commercial Finance Limited ("DCF") is a subsidiary of DBS, and in members' voluntary liquidation. We understand that there will be no further realisations in the liquidation of DCF, and the final pre-liquidation tax return has now been submitted. Subject to final tax clearance and the costs of winding the company up, our estimate of potential realisations from this subsidiary shareholding is



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in the region of £1.0 to £1.4 million. The liquidator of DCF has indicated that the liquidation should be finalised and a dividend paid to DBS within the next 3-6 months.

Attached, as Appendix 5, is a summary of the accumulated time costs for the liquidation of DCF in the 21 month period to 31 July 2011, in accordance with SIP9. To date no fees have been approved or paid to the liquidator of DCF. As a members' voluntary liquidation, the fees would be approved by the shareholder, DBS in BSSA. However, as the liquidator of DCF is an Insolvency Practitioner from KPMG's liquidation practice, we will be seeing instructions from our appointor, BoE, for approval of those fees in due course.

Funds Transfer Sharing Limited has now been formally struck off and, as previously reported, a final distribution of £43k was paid to DBS as a dividend in respect of its shareholding.

### **3.7 Bank interest**

As at 30 July 2011, some £1.31 million of bank deposit interest has been received. 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.

### **3.8 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. This included some £427.54 million to HMT in respect of their first liability claim and £38.83 million to the Pension Trustees.





Whilst all non-subordinated unsecured claims at 30 July 2010 were paid in full, there remain some contingent non-subordinated unsecured claims which may still crystallise against the estate, though it is not possible to gauge the probability or timing. The quantum is not expected to exceed £2 million in aggregate.

## **4.2 Subordinated loan notes**

Prior to the administration, DBS issued £50.0 million of 6% Subordinated Notes, due to be redeemed on 31 March 2015, which were listed on the Channel Island Stock Exchange. Further details in relation to these Notes are listed in paragraph 5.2 of this report.

## **4.3 HMT second liability**

As previously reported, the remaining outstanding balance due to HMT is in relation to the second liability – which has been agreed at approximately £1.112 billion. It is unclear at this stage what quantum of distribution HMT will ultimately receive in respect of this sum, or the timing of cash flows as these depend upon future realisations from the remaining assets of DBS.

# **5 Other matters**

## **5.1 Tax**

As previously advised, following receipt of £7.35m in respect of a full terminal loss claim, we do not expect any further realisations in respect of pre-appointment tax refunds.

We are in on-going dialogue with HMRC regarding the post-administration corporate tax affairs of DBS and hope to file the first post-administration corporation tax return in the near future. It is currently anticipated that a significant tax loss will be claimed in the 1<sup>st</sup> period of the administration, which should mean in practice that there would be no corporation tax liability due in respect of the at least the first two years of this administration.

## **5.2 Meeting of creditors**

As noted in previous update reports, under the Act the Joint Administrators' are required to hold an initial creditors' meeting as soon as reasonably practicable after the issuing of an Objective 1 achievement notice, and in any event within 10 weeks beginning with the date on which the Objective 1 achievement notice is issued.

As outlined in our Proposals issued on 20 October 2010, we were advised that Subordinated Notes were likely to rank for payment after any statutory interest payable to

both the unsubordinated creditors and the Second Liability. However, as the terms of the trust deed constituting the Notes is not explicit on this point, we were advised that it would be prudent to obtain directions from the Court to confirm the position, both as to ranking and statutory interest.

Since the outcome of the application will determine who is entitled to vote at the creditors' meeting, the Joint Administrators had concluded that it was not appropriate, and indeed remains impractical, to convene a creditors' meeting before the Court gives its directions.

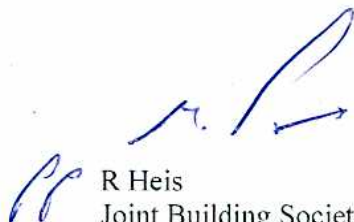
The preparation of the application for directions has, necessarily, taken some time because it has involved open consultation with a number of the key stakeholders potentially affected by the outcome of the application. To take account of the time required to prepare the application for submission to and then hearing by the Court, the Court of Session has now extended the deadline of 25<sup>th</sup> January 2011 to 25<sup>th</sup> July 2011, and issued a subsequent extension to 25<sup>th</sup> January 2012. However, Court time has now been reserved on 24<sup>th</sup> and 25<sup>th</sup> August for hearing of the application for directions and, notwithstanding the extension, the Joint Administrators' will seek to call a creditors meeting as soon as practicable after the directions are obtained.

When a meeting of DBS creditors is convened, we will provide all creditors with at least 14 days written notice of the date, time and venue of the meeting.

## **6 Joint Administrators' fees**

I enclose, at Appendix 3, an analysis of our time and costs properly charged since our last report between 29 January 2011 and 1 July 2011 (the last date to which our time costs were submitted for approval to the BoE). During this period, a total of 4,723.65 hours were spent by me and my firm's staff in relation to the activities listed in Appendix 3 at a total cost of £1,843,661.25. In accordance with the BSSAR, our costs and our hourly rates are subject to approval by the BoE and to settlement from the DBS estate.

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



R Heis  
Joint Building Society Special Administrator



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## **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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## **Appendix 3**

### **Administrators' cumulative receipts and payments accounts to 30 July 2011**



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## Administration cumulative receipts and payments account to 30 July 2011

	30/03/2010 to 30/01/2011	31/01/2011 to 30/07/2011	30/03/2009 to 30/07/2011
	£'000	£'000	£'000
<b>Receipts</b>			
Bridge Bank resolution fund	356,652	0	356,652
Treasury assets (interest)	4,960	945	5,905
Treasury assets (capital)	122,731	27,423	150,154
Commercial portfolio realisations (interest)	33,051	9,111	42,162
Commercial portfolio realisations (capital)	76,547	27,091	103,638
Retail portfolio realisations (interest)	10,568	2,570	13,138
Retail portfolio realisations (capital)	23,444	6,249	29,693
Loan collected on behalf of sub – DCF <sup>(1)</sup>	348	0	348
Borrower receipts awaiting allocation <sup>(2)</sup>	3,404	1,061	4,465
Equity release funds received	6,285	560	6,845
Bank interest	1,123	192	1,315
Tax refund	7,354	0	7,354
<b>Sub total</b>	<b>646,467</b>	<b>75,202</b>	<b>721,669</b>
Net commercial deposits (held on behalf of depositors) <sup>(3)</sup>	1,703	(1,350)	353
<b>Total receipts</b>	<b>648,170</b>	<b>73,852</b>	<b>722,022</b>



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**Payments**

Drawdown payments (Commercial)	(4,768)	(71)	(4,839)
Drawdown payments & servicing costs (equity release)	(1,095)	(62)	(1,157)
Swap closure costs	(4,506)	0	(4,506)
Loan servicing costs	(2,302)	(458)	(2,760)
Agents' fees (recharged to customers) <sup>(4)</sup>	(1,685)	(275)	(1,960)
Onward payment of debt collected on behalf of subsidiary – DCF <sup>(1)</sup>	(348)	0	(348)
Administrators' fees	(14,082)	(2,639)	(16,721)
Administrators' disbursements	(425)	(12)	(437)
Legal costs	(2,506)	(711)	(3,217)
Professional advisor fees <sup>(4)</sup>	0	(984)	(984)
Agents' fees and other administrative costs	(2,130)	(496)	(2,626)
Irrecoverable VAT	(2,621)	(1,137)	(3,758)
Force majeure early distribution to unsecured creditors	(282)	0	(282)
HMT – first liability	(427,538)	0	(427,538)
Distribution to other unsecured creditors	(7,351)	0	(7,351)
Pension fund	(38,826)	0	(38,826)
<b>Total payments</b>	<b>(510,465)</b>	<b>(6,845)</b>	<b>(517,310)</b>
<b>Net funds in hand</b>	<b>137,705</b>	<b>67,007</b>	<b>204,712</b>
Less: Monies due to depositors	(1,703)	1,350	(353)
	<b>136,002</b>	<b>68,357</b>	<b>204,359</b>

<sup>(1)</sup> 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.

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

<sup>(3)</sup> Represents the net commercial collateral deposits held with RBS on trust (the movement shown in period 1-7/2011 is the net reduction in deposit balances)

<sup>(4)</sup> Includes approximately £365k of fees incurred prior to 31 January 2011, which have subsequently been reallocated from 'Agents fees (recharged to customers)' to 'Professional advisor fees'.





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## **Appendix 4**

**Joint Administrators' time costs from 29 January 2011 to 1 July 2011.**



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**Statement of Insolvency Practice 9: summary of Administrators' time costs for the  
Period from 29 January 2011 to 1 July 2011**

	<u>Breakdown of hours charged by grade</u>			Total hours	Time cost	Average hourly rate
	Partner/ Director	Manager	Administrator/S upport			
Charge out rate by grade per hour	£600-690	£390-490	£110-275			
Accounting & Administration	46.7	325.5	107.75	480.35	£183,584.25	£382.19
Bank & Statutory Reporting	22.2	279.5	168.25	469.95	£149,545.00	£318.21
Business separation and migration	0.7	52.50	0.0	53.20	£26,145.00	£491.45
Commercial portfolio	325.5	1,284.75	907.15	2,517.4	£1,020,685.75	£405.45
Creditors and claims	52.2	25.9	114.0	192.1	£74,152.00	£386.01
Equity Release portfolio	6.1	45.0	57.2	108.3	£40,540.00	£374.33
Pension and other employee matters	12.0	0.9	18.0	30.9	£12,501.00	£404.56
Retail portfolio	14.2	104.5	392.2	510.9	£166,425.00	£325.75
Statutory and compliance	157.0	50.0	24.25	231.25	£120,440.25	£520.82
VAT & Taxation	32.3	31.2	65.8	129.3	£49,643.00	£383.94
<b>Total in period</b>	<b>668.9</b>	<b>2,199.75</b>	<b>1,855.0</b>	<b>4,723.65</b>	<b>£1,843,661.25</b>	<b>£390.3</b>



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## **Appendix 5**

**Dunfermline Commercial Finance Ltd – in liquidation  
SIP9 analysis from 14 October 2009 to 31 July 2011**



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8 August 2011*

**Dunfermline Commercial Finance Ltd – in liquidation  
Statement of Insolvency Practice 9: summary of Administrators' time costs for the  
Period from 14 October 2009 to 31 July 2011**

	Breakdown of hours charged by grade			Total hours	Time cost	Average hourly rate
	Partner/ Director	Manager	Administrator/S upport			
Charge out rate by grade per hour	£440-535	£320-425	£105-240			
Administration and Planning			1.00	1.00	£240.00	£240.00
Cashiering			5.52	5.52	£870.50	£157.70
Statutory and compliance		17.5	18.3	35.8	£10,322.5	£288.34
Tax		35.15	27.8	62.95	£20,167.95	£320.38
Creditors and claims	4.00		0.5	4.5	£2,142.50	£476.11
Investigations			0.8	0.8	£132.00	£165.00
Asset realisation		56.65	11.90	68.55	£25,124.09	£366.51
<b>Total in period</b>	<b>4.00</b>	<b>5,717.65</b>	<b>65.22</b>	<b>179.12</b>	<b>£58,999.54</b>	<b>£329.39</b>