



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

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

27 February 2015

KPMG LLP



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## **Contents**

<b>1</b>	<b>Glossary</b>	<b>1</b>
<b>2</b>	<b>Introduction</b>	<b>2</b>
<b>3</b>	<b>Assets</b>	<b>2</b>
<b>4</b>	<b>Liabilities</b>	<b>3</b>
<b>5</b>	<b>Joint Administrators' fees</b>	<b>3</b>

## **Appendices**

<b>1</b>	<b>Statutory and other information</b>
<b>2</b>	<b>Transfer of business, assets and liabilities</b>
<b>3</b>	<b>Administrators' cumulative receipts and payments account for the period from 31 July 2014 to 30 January 2015</b>
<b>4</b>	<b>Joint Administrators' time costs from 31 July 2014 to 30 January 2015</b>



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## **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 twelfth 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 2015 is attached at Appendix 3. This shows funds in hand totalling approximately £28.7 million as at 30 January 2015.

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

## 3 Assets

### 3.1 Commercial loan portfolio

As at 30 January 2015, capital realisations from the commercial loan portfolio totalled £332.8 million, together with £86.8 million of interest and charges; representing additional receipts of £36.4 million and £2.9 million respectively since our last report to creditors.

As previously reported, the Joint Administrators conducted a sale process in respect of the remaining loans in the commercial portfolio in the second half of 2014, with the support of an independent corporate finance adviser (CFA). However, having completed the marketing exercise no offers were received for the portfolio that were for a sum greater or equal to the expected net realisable value of the asset and were, therefore, not pursued. Consequently, the administrators are continuing to execute a work-out of the portfolio.

### 3.2 Retail loan portfolio

As with the commercial portfolio, the remaining retail loan portfolios were offered for sale in the second half of 2014. Interest in the assets was strong and at the end of a two-phase bidding process Arbuthnot Latham and Co., Ltd ("Arbuthnot") was selected as the preferred bidder in early December 2014. We executed a sale agreement with Arbuthnot on 18 December 2014, with an effective date of 31 October 2014. Taking into account the proceeds from the sale, the aggregate capital realisations on the retail portfolios since the

previous report were £114 million, resulting in aggregate capital realisations of nearly 95% of the book values of these assets at appointment date. There were also £2 million of interest and charges realised during this period.

The structure of the sale to Arbuthnot involved the beneficial interest transferring to the purchaser upon signing, but the legal title is retained by DBS until the loans are migrated to the purchaser's servicing platform, expected to be by the summer of 2015.

### **3.3 Bank interest**

As at 30 January 2015, some £2.6 million of bank deposit interest had been received since the commencement of the administration. The Joint Administrators distribute surplus cash realisations on a frequent basis to ensure creditors receive distributions on a timely basis, and minimise funds remaining in the estate. The Joint Administrators continue to manage the cash balances that are 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 HMT Second Liability**

Since the date of our last report, a further £165 million has been paid to HMT in respect of its' second liability claim (including £20 million post the cut-off date of this report ie 30 January 2015). This brings the total paid to date under the second liability to £620 million (i.e. 56% of the total Second Liability claim of £1.112 billion).

The ultimate quantum to be distributed to HMT is primarily dependent on future realisations from the remaining commercial real estate loan portfolio. The administrators still consider their estimates as to the realisable value of these remaining assets to be commercially sensitive and, as such, are not disclosed in this report.

### **4.2 Subordinated loan notes**

The subordinated loan notes mature on 31 March 2015, and, as previously reported, there remains no prospect of repayment by the Society.

## **5 Joint Administrators' fees**

I enclose, at Appendix 4, an analysis of our time and costs properly charged since our last report between 31 July 2014 and 30 January 2015. During this period, a total of 6,655 hours were spent by me and my firm's staff in relation to the activities listed in Appendix 4 at a total cost of £2,570,381. To date, fees have been approved by HMT and drawn for the period up to and including 26 December 2014, in accordance with the BSSAR.



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Should you have any queries on anything contained within this report, please do not hesitate to contact me or my colleague James Rivers on 0207 311 8091.

A handwritten signature in black ink, appearing to be 'M R Pink', written in a cursive style.

M R Pink  
*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 2009) the former registered office of Dunfermline Building Society was situated at:

Caledonia House  
Carnegie Avenue  
Dunfermline  
Fife KY11 8PJ

As part of the Special 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.



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## **Appendix 2**

### **Transfer of business, assets and liabilities**



## **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 31 March 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 January 2015**



## Administration cumulative receipts and payments account to 30 January 2015

	30/03/2009 to 30/07/2014	31/07/2014 to 30/01/2015	30/03/2009 to 30/01/2015
<b>Receipts</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bridge Bank resolution fund	356,652	-	356,652
Treasury assets (interest)	6,409	-	6,409
Treasury assets (capital)	183,148	-	183,148
Commercial portfolio realisations (interest)	83,884	2,921	86,805
Commercial portfolio realisations (capital)	296,383	36,436	332,819
Retail portfolio realisations (interest)	27,595	2,065	29,660
Retail portfolio realisations (capital)	68,716	114,248	182,964
Loan collected on behalf of sub – DCF <sup>(1)</sup>	348	-	348
Borrower receipts awaiting allocation <sup>(2)</sup>	2,871	(594)	2,277
Equity release funds received	61,672	-	61,672
Bank interest	2,616	28	2,644
Tax refund	7,354	-	7,354
Other assets (inc. distribution from subsidiaries)	3,605	739	4,344
<b>Sub total</b>	<b>1,101,253</b>	<b>155,843</b>	<b>1,257,096</b>
Net commercial deposits (held on behalf of depositors)	0	0	0
<b>Total receipts</b>	<b>1,101,253</b>	<b>155,843</b>	<b>1,257,096</b>



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## Payments

Drawdown payments (commercial)	(4,985)	(83)	(5,068)
Drawdown payments & servicing costs (equity release)	(1,828)	-	(1,828)
Swap closure costs	(4,506)	-	(4,506)
Loan servicing costs	(4,551)	(327)	(4,878)
Onward payment of debt collected on behalf of subsidiary – DCF <sup>(1)</sup>	(348)	-	(348)
Administrators' fees	(26,639)	(2,968)	(29,607)
Administrators' expenses	(512)	(13)	(525)
Legal costs	(4,295)	(1,601)	(5,896)
Professional advisors fees	(3,867)	(31)	(3,898)
Agents fees and other administrative costs	(5,479)	(2,201)	(7,680)
Force majeure payments to unsecured creditors	(282)	-	(282)
Irrecoverable VAT	(7,661)	(1,051)	(8,712)
HMT - first liability	(427,538)	-	(427,538)
HMT - second liability	(455,000)	(145,000)	(600,000)
Distribution to other unsecured creditors	(7,374)	-	(7,374)
Statutory interest to unsecured creditors	(81,850)	-	(81,850)
Pension fund	(38,383)	-	(38,383)
<b>Total payments</b>	<b>(1,075,098)</b>	<b>(153,275)</b>	<b>(1,228,373)</b>
<b>Net funds in hand</b>	<b>26,155</b>	<b>2,568</b>	<b>28,723</b>
Less: Monies due to depositors	0	0	0
	<b>26,155</b>	<b>2,568</b>	<b>28,723</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.



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## **Appendix 4**

### **Joint Administrators' time costs from 31 July 2014 to 30 January 2015**



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**Statement of Insolvency Practice 9: summary of Administrators' time costs for the  
Period from 31 July 2014 to 30 January 2015**

	Partner / Director	Manager	Administrator	Support	Total hours	Time cost	Average hourly rate
Charge out rate by grade per hour	£600-685	£390-£490	£215-£275	£110			
Accounting & Administration	12.40	71.40	274.70	12.70	371.20	112,339.50	302.64
Bank and statutory reporting	2.00	0.00	0.00	0.00	2.00	1,200.00	600.00
Commercial portfolio	224.70	708.60	36.30	17.00	986.60	463,172.50	469.46
Creditors and claims	10.90	0.00	106.40	5.80	123.10	35,190.00	285.87
Marketing and disposal of loan portfolios	237.10	3,075.35	1,567.90	35.80	4,916.15	1,858,365.00	378.01
Retail portfolio	9.20	107.80	74.60	0.00	191.60	72,797.00	379.94
Statutory and compliance	13.40	0.00	0.50	1.40	15.30	8,918.00	582.88
VAT & Taxation	12.10	17.70	19.70	0.00	49.50	18,398.50	371.69
<b>Total in period</b>	<b>521.80</b>	<b>3,980.85</b>	<b>2,080.10</b>	<b>72.70</b>	<b>6,655.45</b>	<b>£2,570,380.50</b>	<b>£386.21</b>