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Dunfermline Building Society - in Administration

Joint Administrators' progress report for the period 31 July 2015 to 30 January 2016

26 February 2016

Notice to creditors

This progress report provides an update on the administration of the Society.

We have included (Appendix 3) an account of all amounts received and payments made since the date of our appointment.

We have also explained our future strategy for the administration and how likely it is that we will be able to pay each class of creditor.

You will find other important information in this progress report such as the costs which we have incurred to date.

A glossary of the abbreviations used throughout this document is attached (Appendix 5).

Finally, we have provided answers to frequently asked questions and a glossary of insolvency terms on the following website, https://home.kpmg.com/uk/en/home/insights/2010/11/dunfermline-building-society.html

We hope this is helpful to you.

Please also note that an important legal notice about this progress report is attached (Appendix 6).

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Contents

1 Executive summary

- 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 fourteenth progress report to creditors. However, the disclosure of certain sensitive information relating to certain assets and liabilities could seriously 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 2016 is attached at Appendix 3. This shows funds in hand totalling approximately £20.5 million as at 30 January 2016.
- This progress report covers the period from 31 July 2015 to 30 January 2016.

Mike Pink
Joint Administrator

2 Progress to date

This section updates you on our strategy for the administration and on our progress to date. It follows the information provided in our previous progress report.

2.1 Assets

Realisations during the period are set out in the attached receipts and payments account (Appendix 3).

Summaries of the most significant realisations during the period are provided below.

Commercial loan portfolio

As at 30 January 2016, capital realisations from the commercial loan portfolio totalled £388.3 million, together with £92 million of interest and charges; representing additional receipts of £25.8 million and £2.6 million respectively since our last report to creditors.

As previously reported, the Joint Administrators are continuing to execute a work-out of the portfolio. It is unlikely that the Administrators will reconsider a full re-marketing the remaining portfolio for sale given the nature and quantum of the remaining loans and underlying security and performance of the work-out strategy to date.

However, we are evaluating whether a more limited marketing exercise may be appropriate for a small number of performing loans within that portfolio, most of which have long dated maturities, in order to maximise net realisations for creditors.

Related to the Commercial portfolio, a number of professional negligence claims have been successfully pursued and we have received over £4m to date in net settlement proceeds, with further realisations expected in due course. One of the reasons we sold the residential portfolio but declined to sell the commercial portfolio was because the buyers were not attracted to the professional negligence claims and did not share our confidence in the value of these claims.

Retail loan portfolio

As previously reported, the remaining retail loan portfolios were sold in December 2014 and there were no further realisations (apart from minor recoveries from historic shortfall accounts not sold to the retail loan purchaser in December 2014) from the residential portfolio during the period and none are expected in future.

Bank interest

As at 30 January 2016, some £2.7 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.

2.2 Liabilities

HMT Second Liability

Since the date of our last report, a further £20 million has been paid to HMT in respect of its' second liability claim. This brings the total paid to date under the second liability to £665 million (i.e. 60% of the total Second Liability claim of £1.112 billion). In addition, a further £15 million was paid to HMT on 4th February 2016 which is not reflected in the enclosed receipts and payments accounts.

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.

Subordinated loan notes

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

3 Joint Administrators' fees

3.1 Joint Administrators' fees

I enclose, at Appendix 4, an analysis of our time and costs properly charged since our last report between 31 July 2015 and 30 January 2016. During this period, a total of 2,128 hours were spent by me and my firm's staff in relation to the activities listed in Appendix 4 at a total cost of £827,246. To date, fees have been approved by HMT and drawn for the period up to and including 25 September 2015, in accordance with the BSSAR.

Should you have any queries on anything contained within this report, please do not hesitate to contact me or my colleague Magdalena Glanowska on 0118 964 2026.

4 Future strategy

4.1 Future conduct of the administration

We will continue to manage the affairs, the business and the property of the Company in order to achieve the purpose of the administration. This will include but not be limited to:

- Work-out of the Commercial Portfolio;
- Monitoring the market for potential opportunities to sell the remaining assets;
- Distributions to HMT in respect of the Second Liability;
- Stakeholder management and reporting.

4.2 Future reporting

We will provide a further progress report within four weeks of 30 July 2016 or earlier if the administration has been completed prior to that time.

Appendix 1 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 Society was changed to:-

191 West George Street
Glasgow
G2 2LJ

Joint Administrators and their functions

Richard Heis, Mike Pink and Richard Fleming of 15 Canada Square, London, E14 5GL 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 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.

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 Joint Administrators' receipts and payments account

Receipts	Note	30/03/2009 to 30/07/2015 £'000	31/7/2015 to 30/1/2016 £'000	30/3/2009 to 30/1/2016 £'000
Bridge Bank resolution fund		356,652	-	356,652
Treasury assets (interest)		6,409	-	6,409
Treasury assets (capital)		183,153	-	183,153
Commercial portfolio realisations (interest)		89,404	2,623	92,027
Commercial portfolio realisations (capital)		362,549	25,780	388,329
Retail portfolio realisations (interest)	1	29,660	1	29,661
Retail portfolio realisations (capital)		182,964	-	182,964
Loan collected on behalf of sub - DCF	2	348	-	348
Borrower receipts awaiting allocation*	3	2,010	(1,669)	342
Equity release funds received		61,672	-	61,672
Bank interest		2,692	18	2,710
Tax refund		7,358	-	7,358
Sundry income	4	1,064	4,540	5,604
Other assets (inc.distribution from subsidiaries)		1,382	-	1,382
Sub total		**1,287,317**	**31,293**	**1,318,610**
Net commercial deposits (held on behalf of depositors)	5	55	15	70
Funds held to be returned to counterparty	6	9	(0)	9
Total receipts		**1,287,381**	**31,308**	**1,318,689**
Payments				
Drawdown payments (commercial)		(5,068)	(1)	(5,069)
Drawdown payments & servicing costs (equity release)		(1,828)	-	(1,828)
Swap closure costs		(4,506)	-	(4,506)
Loan servicing costs		(5,060)	(62)	(5,122)
Onward payment of debt collected on behalf of subsidiary - DCF*	2	(348)	-	(348)
Administrators' fees		(30,662)	(917)	(31,579)
Administrators' expenses		(530)	(1)	(531)
Legal costs		(6,604)	(803)	(7,407)
Professional advisors fees		(4,306)	-	(4,306)
Agents fees and other administrative costs		(6,923)	(387)	(7,310)
Force majeure payments to unsecured creditors		(282)	0	(282)
Irrecoverable VAT		(9,220)	(380)	(9,600)
HMT - first liability		(427,538)	-	(427,538)
HMT - second liability		(645,000)	(20,000)	(665,000)
Distribution to other unsecured creditors		(7,374)	-	(7,374)
Statutory interest to unsecured creditors		(81,850)	-	(81,850)
Pension fund		(38,383)	(0)	(38,383)
Post sale retail realisation adjustments	7	(1,354)	-	(1,354)
Total payments		**(1,276,837)**	**(22,550)**	**(1,299,386)**
Net funds in hand		**10,544**	**8,759**	**19,303**
Less: Monies due to depositors	5	(55)	(15)	(70)
Less: Funds held to be returned to counterparty	6	(9)	0	(9)
DBS and third party fees control account	8	606	714	1,320
		11,087	**9,457**	**20,544**

Notes to receipts and payments account

(1) Relates to realisations from historic shortfall accounts not sold to the retail loan purchaser in December 2014.

(2) 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.

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

(4) Sundry income relates mainly to recoveries from professional negligence claims.

(5) Represents the net commercial deposits held by RBS on trust.

(6) Relates to funds received from counterparty to pay for costs post the retail portfolio sale transaction. Unutilised funds will be returned to counterparty.

(7) Relates to funds received on behalf of the purchaser of the retail portfolios and paid across to the purchaser.

(8) This relates to fees paid to third parties on behalf of customers, as well as historic arrangement fees charged by DBS (all recoverable).

Appendix 4 Joint Administrators’ charging and disbursements policy

Joint Administrators’ charging policy

The time charged to the administration is by reference to the time properly given by us and our staff in attending to matters arising in the administration. This includes work undertaken in respect of tax, VAT, employee, pensions and health and safety advice from KPMG in-house specialists.

Our policy is to delegate tasks in the administration to appropriate members of staff considering their level of experience and requisite specialist knowledge, supervised accordingly, so as to maximise the cost effectiveness of the work performed. Matters of particular complexity or significance requiring more exceptional responsibility are dealt with by senior staff or us.

A copy of “A Creditors’ Guide to Administrators’ Remuneration Scotland” from Statement of Insolvency Practice 9 (‘SIP 9’) produced by the Association of Business Recovery Professionals is available at:

https://www.r3.org.uk/media/documents/technical_library/SIPS/Creditors'_Guide_to_Administrators'_Remuneration_Scotland.pdf

If you are unable to access this guide and would like a copy, please contact Magdalena Glanowska on 0118 9642026.

Policy for the recovery of disbursements

Where funds permit the officeholders will seek to recover both Category 1 and Category 2 disbursements from the estate. For the avoidance of doubt, such expenses are defined within SIP 9 as follows:

Category 1 disbursements: These are costs where there is specific expenditure directly referable to both the appointment in question and a payment to an independent third party. These may include, for example, advertising, room hire, storage, postage, telephone charges, travel expenses, and equivalent costs reimbursed to the officeholder or his or her staff.

Category 2 disbursements: These are costs that are directly referable to the appointment in question but not to a payment to an independent third party. They may include shared or allocated costs that can be allocated to the appointment on a proper and reasonable basis, for example, business mileage.

Category 2 disbursements charged by KPMG Restructuring include mileage. This is calculated as follows:

Mileage claims fall into three categories:

- Use of privately-owned vehicle or car cash alternative – 45p per mile.
- Use of company car – 60p per mile.
- Use of partner’s car – 60p per mile.

For all of the above car types, when carrying KPMG passengers an additional 5p per mile per passenger will also be charged where appropriate.

We have incurred the following disbursements (excluding VAT) during the period 31 July 2015 to 30 January 2016.

SIP 9 - Disbursements					
	Category 1		Category 2		
Disbursements	Paid (£)	Unpaid (£)	Paid (£)	Unpaid (£)	**Totals (£)**
Accommodation	371.06		NIL		**371.06**
Meals	114.88		NIL		**114.88**
Mileage	NIL		176.00		**176.00**
Travel	1,342.68		NIL		**1,342.68**
Total	**1,828.62**		**176.00**		**2,004.62**

We have the authority to pay Category 1 disbursements without the need for any prior approval from the creditors of the Company.

The Category 2 disbursements have been approved by HMT for the period up to and including 25 September 2015, in accordance with the BSSAR, and drawn.

Creditors' right to challenge our remuneration and outlays

If you wish to challenge the basis of our remuneration, the remuneration approved, or the outlays approved during the period covered by this progress report, you must do so by making an application to Court within eight weeks of the accounting period and no later than 25 March 2016 or within 14 days of receiving this progress report.

Applications by any creditor must be made with concurrence of at least 25% in value of unsecured creditors (including the creditor making the challenge).

The full text of the relevant rules can be provided on request by writing to Magdalena Glanowska at KPMG LLP, 15 Canada Square, London, E14 5GL, United Kingdom.

Narrative of work carried out for the period 31 July 2015 to 30 January 2016

The key areas of work have been:

Statutory and compliance	■ collating initial information to enable us to carry out our statutory duties, including creditor information, details of assets and information relating to the licences; ■ posting information on a dedicated web page; ■ preparing statutory receipts and payments accounts; ■ arranging bonding and complying with statutory requirements; ■ ensuring compliance with all statutory obligations within the relevant timescales.
Strategy documents, Checklist and reviews	■ formulating, monitoring and reviewing the administration strategy; ■ briefing of our staff on the administration strategy and matters in relation to various work-streams; ■ regular case management and reviewing of progress, including regular team update meetings and calls; ■ meeting with management to review and update strategy and monitor progress; ■ reviewing and authorising junior staff correspondence and other work; ■ reviewing matters affecting the outcome of the administration; ■ allocating and managing staff/case resourcing and budgeting exercises and reviews; ■ liaising with legal advisors regarding the various instructions, including agreeing content of engagement letters; ■ complying with internal filing and information recording practices, including documenting strategy decisions.
Reports to secured creditors	■ providing written and oral updates to representatives of HMT regarding the progress of the administration and case strategy.
Cashiering	■ preparing and processing vouchers for the payment of post-appointment invoices; ■ creating remittances and sending payments to settle post-appointment invoices; ■ preparing payroll payments for retained staff, dealing with salary related queries and

	confirming payments with the employee's banks; ■ reviewing and processing employee expense requests; ■ reconciling post-appointment bank accounts to internal systems; ■ ensuring compliance with appropriate risk management procedures in respect of receipts and payments.
Tax	■ working on tax returns relating to the periods affected by the administration; ■ analysing VAT related transactions; ■ dealing with post appointment tax compliance.
General	■ reviewing time costs data and producing analysis of time incurred which is compliant with Statement of Insolvency Practice 9; ■ drawing remuneration in accordance with the basis and amount which has been approved together with outlays including disbursements.
Asset realisations	■ liaising with the purchaser of the residential mortgage portfolios on matters post sale; ■ continuing the work-out of the Commercial portfolio; ■ seeking legal advice in relation to realisations of the remaining assets.
Open cover insurance	■ liaising with the post-appointment insurance brokers to provide information, assess risks and ensure appropriate cover in place; ■ assessing the level of insurance premiums.
Employees	■ dealing with queries from employees regarding various matters relating to the administration and their employment; ■ dealing with statutory employment related matters, including statutory notices to employees and making statutory submissions to the relevant government departments; ■ administering the Society's payroll, including associated taxation and other deductions, and preparing PAYE and NIC returns; ■ communicating and corresponding with HM Revenue and Customs; ■ dealing with issues arising from employee redundancies, including statutory notifications and liaising with the Redundancy Payments Office; ■ managing claims from employees; ■ ensuring security of assets held by employees.
Creditors and claims	■ convening and preparing for meetings with HMT; ■ drafting our progress report.

Time costs

	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	**13.50**	**93.30**	**457.80**	**3.25**	**567.85**	**£168,021.50**	**£295.89**
Bank and statutory reporting	**5.20**	**1.00**	**0.00**	**0.00**	**6.20**	**£3,610.00**	**£582.26**
Commercial portfolio	**185.45**	**759.20**	**368.05**	**3.50**	**1,316.20**	**£561,467.75**	**£426.58**
Creditors and claims	**12.20**	**6.00**	**65.40**	**0.00**	**83.60**	**£27,704.00**	**£331.39**
Marketing and disposal of loan portfolios	**0.00**	**77.90**	**0.00**	**0.00**	**77.90**	**£31,631.00**	**£406.05**
Pension and other employee matters	**0.00**	**0.00**	**9.40**	**0.00**	**9.40**	**£2,585.00**	**£275.00**
Retail portfolio	**1.00**	**23.20**	**1.10**	**0.00**	**25.30**	**£10,050.50**	**£397.25**
Statutory and compliance	**19.80**	**0.00**	**3.50**	**0.00**	**23.30**	**£14,286.50**	**£613.15**
VAT & Taxation	**0.50**	**18.00**	**0.00**	**0.00**	**18.50**	**£7,890.00**	**£426.49**
Total in period	**237.65**	**978.60**	**905.25**	**6.75**	**2,128.25**	**£827,246.25**	**£388.70**

Appendix 5 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, 15 Canada Square, London, E14 5GL 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.

Appendix 6 Notice: About this report

This report has been prepared by Mike Pink, Richard Heis and Blair Nimmo, the Joint Administrators of Dunfermline Building Society – in Administration, solely to comply with their statutory duty to report to creditors under the Insolvency (Scotland) Rules 1986 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 the Society.

Any estimated 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 that chooses to rely on this report for any purpose or in any context other than under the Insolvency (Scotland) Rules 1986 does so at its own risk. To the fullest extent permitted by law, the Joint Administrators do not assume any responsibility and will not accept any liability in respect of this report to any such person.

Michael Robert Pink and Richard Heis are authorised to act as insolvency practitioners by the Institute of Chartered Accountants in England & Wales.

Blair Carnegie Nimmo is authorised to act as an insolvency practitioner by the Institute of Chartered Accountants of Scotland.

Richard Fleming is authorised to act as an insolvency practitioner by the Insolvency Practitioners Association.

The Joint Administrators act as agents for the Society 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.