



Dunfermline Building Society – in Building Society Special Administration

Joint Administrators' progress
report for the period 31 July
2017 to 30 January 2018

22 February 2018



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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1 Executive summary

We, Blair Nimmo and Mike Pink of KPMG, together with Richard Heis and Richard Fleming, 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). Richard Heis and Richard Fleming resigned as Joint Administrators 25 August 2017 and 2 June 2016 respectively. The other two administrators remain in place. The functions of the Joint Administrators may be performed jointly or by either of them individually.

In accordance with the Rules we set out below our eighteenth 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.

To date the Joint Administrators have realised in excess of £1.375 billion and distributed more than £1.28 billion to the Society's stakeholders.

The cumulative receipts and payments account for the period 30 March 2009 (the date of appointment) to 30 January 2018 is attached at Appendix 3. This shows funds in hand totalling approximately £5.5 million as at 30 January 2018.

This progress report covers the period from 31 July 2017 to 30 January 2018.



Mike Pink

Joint Building Society Special 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 2018, capital realisations from the commercial loan portfolio totalled £425.8 million, together with £94.0 million of interest and charges; representing additional receipts of £0.8 million since our last report to creditors. We are now approaching the final phase of the work-out of the loan portfolio, with less than a dozen active borrower accounts outstanding, the majority of which are in enforcement proceedings.

A number of professional negligence claims related to the Society's security shortfalls on pre-administration Commercial loans have been successfully pursued and we have received approximately £21.6 million to date in settlement proceeds, including £5.0 million in the period. All claims raised to date have now been settled with only some related administrative matters remaining outstanding.

Bank interest

As at 30 January 2018, approximately £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 £4.0 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 £727 million (i.e. 65% 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, they are not disclosed in this report.

Subordinated loan notes

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

3 Joint Administrators' fees

3.1 Joint Administrators' fees

Enclosed, at Appendix 4, is an analysis of our time and costs since our last report covering the period between 31 July 2017 and 30 January 2018. During this period, a total of 968 hours were spent by me and my firm's staff in relation to the activities listed in Appendix 4 at a total cost of approximately £394,500. To date, fees have been approved by HMT for the period up to and including 27 October 2017, in accordance with the BSSAR. At the date of this report fees had only been drawn for the period up to 27 October 2017.

Should you have any queries on anything contained within this report, please do not hesitate to contact me or my colleague, Harry Williamson, on 0131 451 7786.

4 Future strategy

4.1 Future conduct of the administration

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

- Work-out of the residual Commercial Portfolio, including fulfilling the remaining the administrative matters related to the completed professional negligence claims;
- Distributions to HMT in respect of the Second Liability;
- Preparing for the ultimate exit from special administration; and
- Stakeholder management and reporting.

4.2 Future reporting

We will provide a further progress report within four weeks of 30 July 2018 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:

319 St Vincent Street
Glasgow
G2 5AS

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. Richard Heis and Richard Fleming resigned as Joint Administrators on 25 August 2017 and 2 June 2016 respectively. The other two administrators remain in place. 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.
- 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 Joint Administrators' receipts and payments account

Receipts		30/03/2009 to 30/07/2017	31/07/2017 to 30/01/2018	30/03/2009 to 30/01/2018
		£'000	£'000	£'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)		93,962	9	93,971
Commercial portfolio realisations (capital)		425,039	784	425,823
Retail portfolio realisations (interest)		29,663	-	29,663
Retail portfolio realisations (capital)		182,968	-	182,968
Loan collected on behalf of sub - DCF	1	348	-	348
Equity release funds received		61,672	-	61,672
Bank interest		2,750	3	2,753
Tax refund		7,358	-	7,358
Sundry income	2	18,073	5,000	23,073
Other assets (inc. distribution from subsidiaries)		1,382	-	1,382
Sub total		1,369,429	5,797	1,375,226
Net commercial deposits (held on behalf of depositors)	3	187	(187)	-
Total receipts		1,369,617	5,610	1,375,228
Payments				
Drawdown payments (commercial)		(5,069)	-	(5,069)
Drawdown payments & servicing costs (equity release)		(1,828)	-	(1,828)
Swap closure costs		(4,506)	-	(4,506)
Loan servicing costs		(5,297)	-	(5,297)
Onward payment of debt collected on behalf of subsidiary - DCF	1	(348)	-	(348)
Administrators' fees		(33,805)	(810)	(34,615)
Administrators' expenses		(534)	(1)	(535)
Legal costs		(9,509)	(1,174)	(10,683)
Professional advisors fees		(4,306)	-	(4,306)
Agents fees and other administrative costs		(7,781)	(145)	(7,927)
Force majeure payments to unsecured creditors		(282)	-	(282)
Irrecoverable VAT		(10,510)	(298)	(10,808)
HMT - first liability		(427,538)	-	(427,538)
HMT - second liability		(723,000)	(4,000)	(727,000)
Distribution to other unsecured creditors		(7,374)	-	(7,374)

Receipts		30/03/2009 to 30/07/2017	31/07/2017 to 30/01/2018	30/03/2009 to 30/01/2018
		£'000	£'000	£'000
Statutory interest to unsecured creditors		(81,850)	-	(81,850)
Pension fund		(38,383)	-	(38,383)
Post sale retail realisation adjustments	4	(1,354)	-	(1,354)
Total payments		(1,363,274)	(6,429)	(1,369,703)
Net funds in hand		6,343	(820)	5,523
Less: Monies due to depositors	3	(187)	187	-
		6,155	(633)	5,523

Notes to receipts and payments account

- 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 Sundry income relates mainly to recoveries from professional negligence claims.
- 3 Represented the net commercial deposits held on trust by RBS.
- 4 Relates to funds received on behalf of the purchaser of the retail portfolios and paid across to the purchaser.

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](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 Harry Williamson on (0)13 1451 7786.

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 2017 to 30 January 2018:

SIP 9 – Disbursements					
Disbursements	Category 1		Category 2		Totals (£)
	Paid (£)	Unpaid (£)	Paid (£)	Unpaid (£)	
Accommodation	475.33		NIL		475.33
Meals	122.47		NIL		122.47
Travel	53.30		NIL		53.30
Total	651.10		NIL		651.10

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 27 October 2017, in accordance with the BSSAR. Of these, the disbursements up to 27 October 2017 have been 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 27 March 2017 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 Harry Williamson at KPMG LLP, 37 Albyn PI, Aberdeen AB10 1JB.

Narrative of work carried out for the period 31 July 2017 to 30 January 2018

The key areas of work have been:

Statutory and compliance	<ul style="list-style-type: none"> — collating 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; — completing and submitting quarterly formal data reports to Bank of England and PRA.
Strategy documents, Checklist and reviews	<ul style="list-style-type: none"> — 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; — 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; — complying with internal filing and information recording practices, including documenting strategy decisions.

Reports to secured creditors	<ul style="list-style-type: none"> — providing written and oral updates to representatives of HMT regarding the progress of the administration and case strategy.
Cashiering	<ul style="list-style-type: none"> — 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	<ul style="list-style-type: none"> — working on tax returns relating to the periods affected by the administration; — analysing VAT related transactions; — dealing with post appointment tax compliance.
General	<ul style="list-style-type: none"> — 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	<ul style="list-style-type: none"> — continuing the work-out of the Commercial portfolio; — seeking legal advice in relation to realisations of the remaining assets.
Employees	<ul style="list-style-type: none"> — 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.
Creditors and claims	<ul style="list-style-type: none"> — convening and preparing for meetings with HMT; — drafting our progress report.

Time costs

Dunfermline Building Society (in building society special administration) Statement of Insolvency Practice 9

Summary of administrators' time costs for the period 31 July 2017 to 30 January 2018

	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 and administration	3.10	1.75	53.00	0.00	57.85	£17,022.50	£294.25
Bank and statutory reporting	8.10	12.35	0.00	0.00	20.45	£10,911.50	£533.57
Commercial portfolio	142.70	374.00	27.00	0.00	543.70	£261,445.50	£480.86
Creditors and claims	1.10	0.00	72.50	0.00	73.60	£20,123.50	£273.42
Marketing and disposal of loan portfolios	0.00	4.70	0.00	0.00	4.70	£1,833.00	£390.00

	Partner/ Director	Manager	Administrator	Support	Total hours	Time cost (£)	Average hourly rate (£)
Pension and other employee matters	0.00	3.00	4.20	0.00	7.20	£2,625.00	£364.58
Retail portfolio	0.00	42.30	104.00	0.00	146.30	£38,857.00	£265.60
Statutory and compliance	26.20	8.25	71.60	0.00	106.05	£38,139.50	£359.64
VAT and Taxation	0.20	7.90	0.00	0.00	8.10	£3,491.00	£430.99
Total in period	181.40	454.25	332.30	0.00	967.95	£394,448.50	£407.51

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 Mike Pink 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: rescue the residual bank as a going concern, or 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 and Blair Nimmo, the Joint Administrators of Dunfermline Building Society – in Building Society Special Administration, solely to comply with their statutory duty to report to creditors under The Building Society Special Administration (Scotland) Rules 2009 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 Building Society Special Administration (Scotland) Rules 2009 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 is authorised to act as insolvency practitioner 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.

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.

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