IP/10/48

Brussels, 25th January 2010

State aid: Commission approves aid for restructuring of Dunfermline Building Society

The European Commission has approved under EU state aid rules the aid given by the UK authorities to facilitate restructuring of the Dunfermline Building Society of the United Kingdom. The restructuring consisted of the immediate split-up of Dunfermline, after which the part containing the good assets and liabilities was sold in an auction to a competitor with a financial contribution by the UK State of over £1.5 billion. The part containing the impaired assets was put into administration. The Commission found that the orderly break-up of Dunfermline resulted in the return to viability of the good part that was sold. The Commission furthermore concluded that there was sufficient burden-sharing as subordinated debt-holders contributed to the restructuring as much as possible and that the liquidation of a substantial part of Dunfermline limited the distortion of competition caused by the aid. The Commission therefore concluded that the direct restructuring is compatible with the EU rules on state aid to remedy a serious disturbance in a Member State's economy (Article 87(3)(b) of the EC Treaty).

Competition Commissioner Neelie Kroes said "The decision on Dunfermline again demonstrates that EU state aid policy is part of the solution to tackle the financial crisis. The UK authorities opted for a market-oriented solution which enabled competitors to obtain the viable parts of the businesses, while at the same time sufficient safeguards were put in place to ensure burden-sharing and to limit distortions of competition."

The decision in the case of Dunfermline, together with the decision on Bradford & Bingley (see IP/10/47), is closing the chapter of UK bank restructuring prompted by State aid in the context of the financial crisis.

Dunfermline is a building society predominantly active in Scotland. It provides many of the same financial services as a retail bank, mainly to retail customers and small and medium-sized companies. Its structure however is different from a bank in that it is essentially "mutual" in nature. This means that its depositors are the members of the building society and its profits are channelled back into the business for their benefit.

Dunfermline encountered difficulties as a result of its exposure to loans for housing development, commercial investment and buy-to-let. Due to the increased likelihood of defaults on these commercial loans, Dunfermline was forced to make substantial provisions to cover potential impairments.

The UK authorities split-up Dunfermline into two parts; one part containing the good quality assets and liabilities (representing approximately 50% of the business) which was immediately sold to a competitor (Nationwide Building Society) and the other containing the impaired commercial loan assets which was put into administration. Since the liabilities of the package sold initially exceeded the assets, the UK authorities had to provide over £1.5 billion in cash (most of which can eventually be recovered from the UK's deposit guarantee scheme) in order to enable the sale to go through. The UK also provided a working capital loan of £10 million to Dunfermline in administration to allow it to meet its pre-administration contractual commitments.

As regards the direct restructuring of Dunfermline, the Commission found that the orderly break-up of Dunfermline, followed by the sale of the viable part to a competitor ensured the return of viability of the sold business. The Commission furthermore concluded there was sufficient burden-sharing as subordinated debt-holders contributed to the restructuring as much as possible, while the restructuring costs were limited through an auction process. Finally, the Commission concluded that the distortion of competition caused by the aid was limited because of the profound restructuring, the sale of the viable part of the business to a competitor through an auction, the liquidation of the remaining part and the limited market share of Dunfermline in both the Scottish and broader UK markets.

The non-confidential version of the decision will be made available under the case number NN19/2009 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.