



**PRESBYTERIAN MUTUAL SOCIETY LIMITED
(IN ADMINISTRATION)**

HIGH COURT OF JUSTICE CASE No. 09/1140

**ADMINISTRATOR'S PROPOSALS FOR ACHIEVING THE PURPOSES OF
ADMINISTRATION**

12th January 2009

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If you have a query which is not dealt with in the Questions and Answers in Appendix 2, please do not hesitate to contact a member of staff at the Society by telephoning (028) 9031 1232. In the event that the telephone lines are busy, you can also fax or email your telephone details for a call back (fax)(028) 9031 1441 or (email) mutual@presbyterianireland.org.

1. LETTER TO MEMBERS



TO ALL KNOWN MEMBERS

12th January 2009

Dear Sir/Madam,

Re: The Presbyterian Mutual Society Limited (In Administration) (the “Society”)

Further to my appointment as Administrator of the Society, I have enclosed my statement of proposals for the members of the Society to consider.

I am required by law to provide you with written proposals for the future of the Society. I am conscious that the process of administration is not one which you are familiar with so I have included in my report at Appendix 2 a number of Questions and Answers which should hopefully assist you with this process.

Unfortunately the law is very specific in terms of what I must include in my written proposals and I am conscious that the form of the written proposals may not cover all of the questions you may have about the current position of the Society and its future. As a consequence I am writing to you also to address some of the more frequent issues raised by members.

1. The Society as a going concern

A number of members have asked me if the Society can now continue as a going concern. In the period leading up to my appointment as Administrator, the Society was unable to trade normally for a number of reasons, including the following:

- the demand for withdrawals by members of their investments exceeded its cash reserves;
- the value of the assets which are invested in or secured by property reduced in value and to a level below the value of members' investments; and
- the members' investments were historically withdrawable on demand but the cash was invested by the Society in longer term investments such as property and loans.

For the Society to allow members to withdraw their investments on demand and invest members' money in longer term investments, the Society required a high degree of confidence among its members that their investments were secure. However this confidence has been severely tested by the current economic climate and eventually the demand by members for withdrawals exceeded the Society's cash reserves.

For the reasons outlined above, I have decided not to continue to accept deposits from existing members or new members. In addition, I have been required by the Department of Enterprise Trade & Investment, on behalf of the Financial Services Authority, to provide an undertaking that no new activities will be carried on by me.

In the circumstances, I believe it will be difficult for the Society in its current form to continue as a going concern.

2. The Society's assets

I think it is very important for me to echo the statement made by the secretary of the Society, Mr Colin Ferguson, prior to my appointment. The Society's assets have not disappeared. Unfortunately the reality is that, like many investment entities, the current unprecedented economic climate and the collapse in the property market in the United Kingdom has significantly reduced the value of the Society's commercial property portfolio and the value of the Society's security over property in its loan book. From my review of the Society's loan book, it would appear as though the arrears are increasing due to the current economic climate.

I believe that the assets of the Society are not realisable quickly at a fair value due to current market conditions which in my experience are unprecedented. Unfortunately, this is something I cannot change at the moment but my proposals are designed to allow the members to get a better return over a period of time.

3. The status of loans and shares

Prior to my appointment as Administrator, the rules of the Society provided that members' loan capital and share capital were treated equally. There was no priority between loan capital and share capital when the Society made distributions. For example, the members of the Society did not have to wait until all of the loan capital was repaid before it received repayment of their share capital.

My lawyers have advised me that this position has now changed as a result of the insolvency laws which apply to the administration of the Society. I am advised that members' loan capital will be treated as creditors and will therefore be paid in preference to members' shares.

I am conscious that this is not how the Society operated since it commenced in 1982. If my proposals are approved by the members, the members will be provided with an opportunity, if they wish, to re-instate the original rules of the Society or such other terms as they may approve at a later date. I would refer you to the fifth resolution at paragraph 5.1.5 of this report.

4. Set off: investments in the Society & borrowings from the Society

Historically I understand that the interest payable on borrowings from the Society was set off by some members against the investments they had made in the Society. This is a practice which some members have asked to continue following my appointment.

My lawyers have advised me that this position has now changed as a result of the insolvency laws which apply to the administration of the Society. I am advised that a member is no longer able to exercise their rights of set off but that the Administrator would apply insolvency set off rules if he makes a distribution.

I am conscious that this is not how the Society operated since it commenced in 1982. If my proposals are approved by the members, the members will be provided with an opportunity, if they wish, to re-instate the original rules of the Society or such other terms as they may approve at a later date. I would refer you to the fifth resolution at paragraph 5.1.5 of this report.

5. Government Guarantee

As you will be aware the Society does not benefit from the deposit guarantee scheme. There have been representations made to and lobbying of Government, both locally and nationally, to have this scheme extended to the members of the Society.

I am continuing to discuss this matter with various parties and I will keep you up to date with any developments. At this time the deposit guarantee scheme has not been extended to the members of the Society.

6. Other matters

I have been asked by a number of members if I will be setting up a hardship fund for members who urgently need access to money. I have discussed this at length with my lawyers and I am advised that I cannot in the current circumstances either set up or administer a hardship fund. However I have been in discussions with others about the setting up of a hardship fund and I have agreed to assist with this where possible for me to do so.

I am also conscious that queries have been raised by members who had intended to use their funds in the Society to pay tax liabilities due to HM Revenue & Customs on 31st January 2009. I have discussed this matter directly with HM Revenue & Customs who have provided me with some helpful information which should assist members who had intended to use their funds in the Society to pay tax liabilities. Any member in this position should contact Colin Ferguson at the Society for further information.

7. Summary

It is unlikely that the Society could continue to carry on business without substantial changes to its constitution. I believe that the Society's existing business should be wound down in a managed and orderly manner through a formal arrangement with its members. This is my key proposal for the Society. A formal arrangement with members will give members an opportunity to determine the key terms of any arrangement. It is also my view that such an arrangement should be put in place as soon as is reasonably practicable.

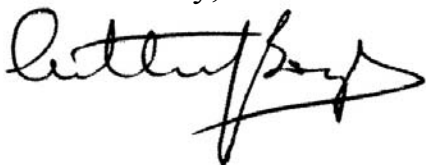
I appreciate that members are keen to know how much of their investments they will get back and when repayments will be made. The purpose of this report is to set out my proposals for taking the Society forward rather than deal with the repayment of investments. It is too early in the process for me to say how much of the investments will be paid out and when repayments will be

made. If my proposals are acceptable to the members of the Society, the next stage of this process will be a proposal for an arrangement which will set out details of how much the members should expect to receive in respect of their investments together with a timeframe for repayments.

This will leave the door open for the Society to continue in some form or other in the future should the members desire this.

I intend to communicate the outcome of the voting to members/creditors during the week commencing 9th February 2009.

Yours faithfully,



Arthur Boyd
Administrator of Presbyterian Mutual Society Limited

The affairs, business & property of the Presbyterian Mutual Society Limited are being managed by Mr Arthur Boyd FCA, as Administrator. Mr Boyd is a licensed Insolvency Practitioner authorised by the Institute of Chartered Accountants in Ireland, and acts as agent of the Society without personal liability.

Partners:
Arthur Boyd FCA, Paula Watson FCA



2. PURPOSE OF THIS REPORT

- 2.1 I wrote to all members of the Presbyterian Mutual Society Limited (the “Society”) on 19th November 2008 to confirm that the Society had been placed into Administration on 17th November 2008 and that I was appointed as Administrator of the Society.
- 2.2 This report sets out the background to the Society being placed into Administration by the Directors of the Society on 17th November 2008 and the steps taken by me since my appointment. This report also sets out my statement of proposals for achieving the purpose of the Administration as required by paragraph 50 of Schedule B1 of the Insolvency (NI) Order 1989.
- 2.3 The purpose of an administration is to achieve the following objectives:
- 2.3.1 to rescue the Society as a going concern; or
 - 2.3.2 to achieve a better result for the members/creditors as a whole than would be likely if the Society were wound up (without first being in administration); or
 - 2.3.3 to realise the Society’s property in order to make a distribution to one or more secured or preferential creditors.
- 2.4 For the reasons set out in this report it is now clear to me that the Society, in its current form, is unlikely to be rescued as a going concern at the current time. Consequently my objective is to achieve a better result for the creditors as a whole than would be likely if the Society were wound up (without first being in administration).
- 2.5 I am proposing to convene a meeting of the members/creditors by correspondence to consider my proposals. It would be impractical and costly to convene a physical meeting of members/creditors at this stage so I have decided to conduct the business contained in this report by correspondence with the members/creditors. To do this I am obliged to provide you with a Form 2.25B which is attached at Appendix 1 of this report.
- 2.6 You will find attached to this report a voting form which will enable you to express your view on my proposals by either accepting or rejecting the

proposals. The majority, in value, of votes received by me will determine whether or not my proposals have been approved or rejected.

- 2.7 Your completed voting form should be returned to me in the envelope enclosed with the voting form. If you have not previously returned to the Society confirmation of your current investment holding, as requested in my letter of 17th December 2008, please confirm in writing your holding as correct on the voting form. Your voting form must be received at the Society's office by **12pm on Friday the 30th of January 2009** to be included in the voting.
- 2.8 It is open to an individual or a group of individuals, who hold at least 10% of the Society's total debts to require me to summon a meeting of members /creditors to consider the proposals set out in this report. To do this I must receive such a request in a Form 2.21 within 5 business days from the date on which this report has been sent out to members. Rule 2.038 of the Insolvency (Amendment) Rules (Northern Ireland) 2006 provides that the costs of summoning and holding such a meeting at the request of a member /creditor or group of members/creditors must be paid by the members /creditors requesting the meeting. Furthermore, a payment in respect of the costs of such a meeting must be deposited with the Administrator as security for payment.
- 2.9 I appreciate that many of you are unfamiliar with the administration process so I have set out in Appendix 2 to this report a number of Questions and Answers which should assist you with some of the queries you may have. If you have a query which is not dealt with in the Questions and Answers in Appendix 2, please do not hesitate to contact a member of staff at the Society by telephoning (028) 9031 1232. In the event that the telephone lines are busy, you can also fax or email your telephone details for a call back (fax) (028) 9031 1441 or (email) **mutual@presbyterianireland.org**.

3. BRIEF HISTORY & CIRCUMSTANCES GIVING RISE TO THE ADMINISTRATION

- 3.1 The Society was incorporated on 13 May 1982 under the Industrial and Provident Societies Act (Northern Ireland) 1969 (as amended). The Society's principal activities are to promote thrift among members of the Presbyterian Church and to create a source of credit for the benefit of its members at a fair and reasonable rate of interest.
- 3.2 The Society's audited accounts for the years ended 31st March 2008, 31st March 2007 and 31st March 2006 state that the Society had the following assets and liabilities as at those dates:

	Year ended 31 st March 2008 £'000	Year ended 31 st March 2007 £'000	Year ended 31 st March 2006 £'000
Fixed assets			
Investments-advances on mortgages	174,672	144,214	54,060
Fixed assets	1,265	1,270	1,268
Investment property	129,500	140,300	106,100
	<u>305,437</u>	<u>285,784</u>	<u>161,428</u>
Current assets			
Interest receivable	87	231	56
Prepayments	819	662	75
Cash and deposits	4,820	9,942	42,392
	<u>5,726</u>	<u>10,835</u>	<u>42,523</u>
Creditors falling due within one year	912	1,838	1,548
Net current assets	<u>4,814</u>	<u>8,997</u>	<u>40,975</u>
Deferred Tax	(1)	(2)	(2)
Net assets	<u>310,250</u>	<u>294,779</u>	<u>202,401</u>
Members interests			
Loans repayable on demand	210,991	190,985	118,748
Shares repayable on demand	98,241	92,198	75,158
	<u>309,232</u>	<u>283,183</u>	<u>193,906</u>
Reserves			
Property revaluation	214	11,014	7,998
Revenue	804	582	497
	<u>1,018</u>	<u>11,596</u>	<u>8,495</u>

- 3.3 During the month of October 2008 the Society experienced an unprecedented increase in the number of requests for repayment of members' investments. It was common practice for the Society to repay investments on receipt of a request, and payments of £21 million were made up to Friday 24th October 2008, leaving £4 million in the Society's bank account.
- 3.4 An emergency meeting of the Society's Board of Directors was convened on 25th October 2008 and it was resolved that:
- 3.4.1 the Society required professional advice in relation to its liquidity problems;
 - 3.4.2 no further payments be made to members until the Society received advice;
 - 3.4.3 the 21 day notice period for the repayment of members' investments be invoked in respect of requests received from members as at that date and any new requests received from members.
- 3.5 On 6th November 2008 the Society's Board of Directors met again and it was reported that the demand among the Society's members to withdraw their investments had increased which further exacerbated the Society's liquidity. It was also reported at this meeting that legal proceedings had been commenced by three members seeking repayment of their investments. It was resolved by the Society's Board of Directors on 6th November 2008 that the Society should be placed into Administration so that its assets could be protected, subject to enabling legislation being passed to permit the Society to go into administration.
- 3.6 The Society was prevented from being placed into Administration by virtue of Article 10 of the Insolvency (Northern Ireland) Order 2005 which provided *inter alia* that the Society could only be placed into Administration if new legislation was passed by the Northern Ireland Assembly. A submission was made by the Society to the Minister of the Department of Enterprise, Trade and Investment, Arlene Foster MLA, on 7th November 2008.
- 3.7 On 10th November 2008 a delegation on behalf of the Society met with the Arlene Foster MLA, senior representatives of the Department of Enterprise, Trade and Investment and Assembly's Finance Minister, Nigel Dodds, MP, MLA. The delegation sought the introduction of emergency legislation to

enable the Society to enter into administration so that the Society's assets could be protected.

- 3.8 On 14th November 2008 legislation was passed which permitted the Society to enter into Administration and on 17th November 2008 the Society was placed into administration and Arthur Boyd FCA, FABRP of Arthur Boyd & Company was appointed as Administrator of the Society on that date.
- 3.9 During the period 27th October 2008 to 17th November 2008, the Society had received requests for withdrawals in excess of £50 million but the Society had cash reserves of only £4 million to meet such requests.

4. SUMMARY OF THE ADMINISTRATOR'S ACTIONS TO DATE

- 4.1 The Administrator is responsible for managing the affairs, business and property of the Society. On appointment the Administrator retained the Society's staff to assist with day to day operation of the Society and communication with members and borrowers.
- 4.2 From the commencement of the Administration until the date of this report, the Administrator has undertaken a review of the key elements of the Society's business, namely;
 - 4.2.1 investments received from members;
 - 4.2.2 advances to borrowers by the Society; and
 - 4.2.3 investments made by the Society in commercial property.
- 4.3 The Administrator has undertaken a review of the records of members' investments and sought confirmation of balances from individual members to ensure the records are accurate.
- 4.4 The Administrator has also arranged for the return of all share and loan certificates sent in by those members requesting repayment of their investments after 25 October 2008.
- 4.5 The Administrator has instructed lawyers to advise him in relation to the terms of the investments received, and made, by the Society together with the nature and validity of the security provided to the Society in respect of advances to borrowers made by the Society to its various borrowers, both individuals and congregations.
- 4.6 From initial investigations into the advances to borrowers made by the Society the Administrator has divided such borrowings made by the Society into the following categories:

Nature of advance	Amount £'M
advances to congregations	12
advances secured on	
- own homes	11
- buy to let properties	26
- houses for sale	3
- building sites and development land	85
- commercial property	17
- agricultural land	27
- other forms of security	3
TOTAL	<u>184</u>

- 4.7 The Administrator is currently assessing the advances made by the Society to borrowers for the purchase of property including buy to let houses and development land and this assessment is ongoing.
- 4.8 The Administrator has commissioned a review of the value of the property provided as security for the loan book.
- 4.9 The Administrator has ascertained that the Society owns a portfolio of 13 commercial properties, 5 based in England, 7 in Scotland and one in the Isle of Man (the “Commercial Property”) together with the Society’s offices in Belfast.
- 4.10 The Administrator has commissioned a valuation of the Commercial Property and has been advised that the Commercial Property is valued in or around £92 million in current market conditions, compared to the original purchase cost of £129 million. The Administrator has also been advised that the Society’s offices are valued at in or around £1 million in current market conditions.
- 4.11 The Society’s net receipts for the period 17th November 2008 to 2nd January 2009 was £4.4 million as shown in the Receipts and Payment Account in Appendix 5. One million relates to interest on the Society’s loan book and given the reduction in the Bank of England base rate and the difficulties being experienced by borrowers in meeting interest repayments, the Administrator anticipates that the Society’s income from the loan book will be significantly reduced in comparison to the previous year. Whilst the Administrator has passed on the 2% base rate cut in November to the

Society's borrowers, he has taken the decision for the time being not to pass on any further base rate cuts.

- 4.12 The Administrator has also been contacted by the Financial Services Authority (the "FSA"). The FSA is seeking some clarification around the nature of the business undertaken by the Society. The Administrator is continuing to assist the FSA with these enquiries.
- 4.13 After the commencement of the Administration the Administrator was in contact with a number of lending institutions and other parties who expressed an interest in assisting the Society and its members. The Administrator held some exploratory discussions with parties about investing in and/or purchasing the Society so that the members received a return on their investment and the Society could continue as a going concern. Unfortunately the Administrator's exploratory discussions with interested parties have not secured any firm offers to date to purchase and/or invest in the Society, however discussions are continuing.
- 4.14 The Administrator has reviewed the circumstances leading up to administration. Whilst the directors' decision to place the Society into administration was justifiable given the Society's inability to meet the demands for withdrawals, my lawyers have drawn to my attention a number of legal consequences of the Administration which impact on members and their investments.
- 4.14.1 Firstly, the Administrator has been advised by his lawyers that in Administration, there is a distinction between a member's investment by way of shares and an investment by way of loan. The Administrator has been advised that the investments by way of loan take priority over the investments by way of shares in administration. This essentially means that if the assets were sold now by the Administrator, the sale proceeds would be used to discharge creditors and members' investments by way of loans first. Once all of these investments by way of loan have been repaid, any surplus on the sale proceeds would be used to repay the investments made by members by way of shares.
- 4.14.2 Secondly, whilst many members have in the past set off the interest due on monies borrowed from the Society against the investment (by way of either loans or shares), this is prohibited by virtue of the Administration.

- 4.15 The Administrator recognises that the distinction between shares and loans together with the prohibition on set off are consequences of the Administration regime as opposed to products of the Society's constitution and the intention of its members. As a result, the Administrator considers that the Society should enter into an arrangement with its members which will afford all of the members an opportunity, if they wish, to re-apply the Society's normal rules in relation to investments by way of shares and loans and the members' right to set off, or on such other terms as members may approve.

5. THE ADMINISTRATOR'S PROPOSALS

- 5.1 As required by paragraph 50 of Schedule B1 of the Insolvency (NI) Order 1989 the Administrator makes the following proposals to creditors for achieving the purpose of the Administration:

5.1.1 First Resolution

That the Administrator continues to manage the affairs and property of the Society and finance this from the income received by the Society in such manner as he considers expedient with a view to achieving a better result for the Society's members as a whole than would be if the Society were wound up.

5.1.2 Second Resolution

That the Administrator shall do all such other things and generally exercise all his powers as Administrator as he, in his discretion, considers cost effective and desirable in order to achieve the purpose of the Administration, to protect and preserve the assets of the Society, to maximise their realisations or for any other purpose incidental to these proposals.

5.1.3 Third Resolution

That the Administrator's remuneration be agreed on a time cost basis by reference to the time properly given by the Administrator and his staff in attending to matters arising in the Administration.

5.1.4 **Fourth Resolution**

That the members agree to a six month extension of the Administration, if deemed necessary by the Administrator.

5.1.5 **Fifth Resolution**

That the Administrator puts forward a formal arrangement for the members to consider pursuant to either Part 1 of the Insolvency (Northern Ireland) Order 1989 or Part 26 of the Companies Act 2006, that such arrangement shall incorporate the existing rules of the Society and/or such other terms as the members may approve and that the arrangement shall make provision for a distribution to be made as soon as is practicable. Failing the approval of such an arrangement by the members/creditors, the Administrator may proceed to put the company into a Creditors Voluntary Liquidation with Mr Arthur Boyd being proposed as Liquidator.

- 5.2 The Administration of the Society will come to an end automatically after 12 months unless the members/creditors agree to extend it for a further six months. Thereafter a Court Order is required to extend the period beyond 18 months. I cannot guarantee that the Court will extend the period of the Administration beyond 18 months. For this reason and the consequences of Administration referred to earlier in paragraph 4.14, I am proposing that the members/creditors resolve that the Society enter into an arrangement pursuant to either Part 1 of the Insolvency (Northern Ireland) Order 1989 or Part 26 of the Companies Act 2006.
- 5.3 It is anticipated that the administration shall come to an end following the earlier of the expiry of the 18 month period referred to above or on application by the Administrator for release, (unless the Administrator requires to extend the period of the administration beyond 18 months).
- 5.4 The Administrator is obliged to fix his remuneration in accordance with Rule 2.107 of the Insolvency Rules (Northern Ireland) 1991 (as amended). This permits remuneration to be fixed either as a percentage of the value of the property with which the Administrator has to deal or alternatively by reference to the time the Administrator and his staff have spent attending to matters arising in the Administration.

- 5.5 For your guidance, I have attached a guide to the Administrator's fees at Appendix 3 of this report.
- 5.6 You will note that the proposals above include a resolution that the Administrator's remuneration be fixed on a time cost basis by reference to the time spent by the Administrator and his staff in attending to matters arising out of the Administration based on the chargeout rates set out in Appendix 4.
- 5.7 Appendix 4 is a schedule which summarises the time that has been spent in attending to matters arising in the period following the Administrator's appointment to 2nd January 2009. In summary the Administrator and his staff have spent 433 hours totalling £47,098.50, at an average chargeout rate of approximately £108.85 per hour.
- 5.8 The rules for voting in administrations are designed for companies rather than mutual societies. The relevant rules provide that the resolutions must be approved by creditors of the entity in administration. Those members who have invested share capital only in the Society would be considered to be shareholders of the Society in the administration rather than creditors. Those members who have invested loan capital in the Society would be deemed to be creditors of the Society for the purposes of the voting rules. However in the circumstances I intend to look at the votes of members as a whole rather than votes only in respect of loan capital.
- 5.9 You can vote by completing the voting form sent with this report. The voting form must be signed by either the Member/Creditor or an authorised representative on the Member/Creditor's behalf and returned to the Administrator in the envelope which is also attached with this report. Your voting paper must be received at the Society's office no later than **12pm on Friday 30th January 2009 to be included in the voting.**

6. STATEMENT OF AFFAIRS

- 6.1 The directors are required by law to provide me with a sworn statement setting out the assets and liabilities of the Society together with the investments made by members. A statement of affairs for the Society was delivered to the Administrator on 5th January 2009. The statement was signed by Mark Orr as Chairman and director of the Society.
- 6.2 A summary of the statement of affairs is appended at Appendix 6.
- 6.3 I have set out below my comments on the statement of affairs:
- 6.3.1 The statement of affairs has been completed by the directors of the Society (as the law requires) and not the Administrator.
- 6.3.2 I have not carried out an audit of the information contained in the Statement of affairs.
- 6.3.3 The Society's loan book is not likely to be easily disposed of at fair value in the current economic climate and it would not be in the best interests of the members if the loan book was to be sold at significantly below its fair value in the current climate.
- 6.3.4 The value of commercial property is £3 million higher than my later professional valuation which I believe reflects the further deterioration in the property market. This compares with the original purchase cost of £129 million.
- 6.3.5 The creditors comprise rents paid in advance of £723,847 and £266,715 due to HM Revenue & Customs in respect of VAT and Corporation Tax.
- 6.3.6 The Statement of Affairs does not provide for any of the costs of realisation or the costs of the Administration, although it is anticipated that the latter will be recovered by ongoing income of the Society.
- 6.4 The directors are required by law to provide me with a sworn statement setting out the assets and liabilities of the Society together with the investments made by members. The directors' statement of affairs must be filed with the High Court and with the Registrar. The Administrator is aware that details of the individual investments by members is sensitive

information and on 7th January 2009 he obtained an Order from the High Court in Belfast on the following terms:

- 6.4.1 the directors' statement of affairs filed with the Registrar and the Court should not disclose the schedule of investments by members;
- 6.4.2 details of the investments made by way of share capital in the Society do not have to be disclosed in the Administrator's proposals;
- 6.4.3 details of the investments made by way of loan capital in the Society do not have to be disclosed in the Administrator's proposals; and
- 6.4.4 details of the borrowers of the Society do not have to be disclosed in my proposals.

7. RECEIPTS & PAYMENT ACCOUNT

- 7.1 Attached at Appendix 5 is the Administrator's Receipts and Payments Accounts for the period 17th November to 2nd January 2009.

8. STATUTORY INFORMATION

Court details for the Administration:	High Court of Justice, Chancery Division No 09/1140 of 2008
Full name:	Presbyterian Mutual Society Limited (In Administration)
Trading name:	None
Registered number:	IP00275
Activity:	promote thrift among members of the Presbyterian Church and to create source of credit for the benefit of its members at a fair and reasonable rate of interest
Society directors:	Rev. S. Sidlow McFarland, Mr. David Clements, Rev. Alistair Bill, Mr. Philip Black, Mr. John Boggs, Mr. George E.G. Burns, Rev Robert Cobain, Mr Colin Dougan, Mr Alan Hewitt*, Miss Aileen Graham, Mr Alan McAdoo, Rev David McConaghy, Mr Albert McCormick, Mr H Mark Orr, Mr Wallace Pepper, Rev Derek Poots, Mr John Robinson, Mr James W Russell, Mrs Phyllis Sleith, Rev Shaw Thompson
Society secretary:	Mr. D.H. Colin Ferguson
Date of Administration:	17 th November 2008
Administrator:	Arthur Boyd of Arthur Boyd & Company, 3 rd Floor, Franklin House, 12 Brunswick Street, Belfast, BT2 7GE
Appointer:	The directors of the Society

Objective pursued by the Administrator:	To achieve a better result for the creditors as a whole than would be likely if the Society were wound up (without first being in administration)
Proposed end of the Administration:	16 th May 2010
The European Regulation on Insolvency Proceedings:	The EC Regulation on Insolvency Proceedings will apply to this Administration, and these proceedings will be the main proceedings because the Society's centre of main interest is in the UK
Whether the Administrator intends to apply to Court under Article 150A(5):	Not applicable

*Resigned 30th September 2008

APPENDIX 1

Rule 2.489

Form 2.25B

Notice of conduct of business by correspondence

No. 09/1140

IN THE HIGH COURT OF JUSTICE IN NORTHERN IRELAND CHANCERY DIVISION (COMPANY INSOLVENCY)

*Insert name of company IN THE MATTER OF **PRESBYTERIAN MUTUAL SOCIETY LIMITED** Company No IP00275

AND IN THE MATTER OF THE INSOLVENCY (NORTHERN IRELAND) ORDER 1989

(a) Insert full name(s) and address(es) of the Administrator(s)

Notice is hereby given by (a)

(b) Insert full name and address of registered office of the company

**ARTHUR BOYD OF ARTHUR BOYD & COMPANY, 3RD FLOOR, FRANKLIN
12 BRUNSWICK STREET, BELFAST, BT2 7GE**

(c) Insert number of resolutions enclosed

(d) Insert address to which form is to be delivered

to the creditors of (b) **PRESBYTERIAN MUTUAL SOCIETY LIMITED**

(e) Insert closing date

that, pursuant to paragraph 58 of Schedule B1 to the Insolvency Act 1986, enclosed are (c) five resolutions for your consideration. Please indicate on the attached voting form whether you are in favour or against each resolution.

Repeat as necessary for the number of resolutions attached

The voting form must be received at (d) **THE ADMINISTRATOR, PRESBYTERIAN MUTUAL SOCIETY, GLENGALL EXCHANGE, GLENGALL STREET, BELFAST, BT12 5AB**

by 12.00 hours on (e) 30th January 2009 in order to be counted. The Administrator must have received confirmation in writing of your investment prior to, or at the time, the voting form is returned. Failure to do so will lead to your vote(s) being disregarded.

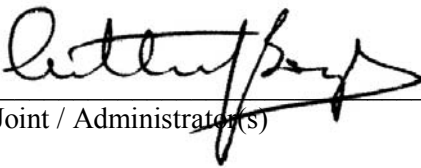
PLEASE COMPLETE THE VOTING FORMS ENCLOSED WITH THIS REPORT

~~TO BE COMPLETED BY CREDITOR WHEN RETURNING FORM:~~

~~Name of creditor: _____~~

~~Signature of creditor: _____~~

~~(If signing on behalf of creditor, state capacity e.g. director/solicitor)~~
~~If you require any further details or clarification prior to returning your votes, please~~
~~contact me / us at the address above.~~

Signed  _____
Joint / Administrator(s)

Dated 12th January 2009 _____

APPENDIX 2

QUESTIONS & ANSWERS FOR MEMBERS

Q How do I ensure that my vote counts?

A You must vote by ticking the relevant box beside each resolution and if you are a holder of both loans and shares complete for both.

You also need to ensure that you have sent confirmation of your investment to the Society either in response to the Administrator's letter dated 17th December 2008 or when you are returning the voting form attached to this report by ticking the relevant box at the foot of the voting form.

You must also return the voting form, having followed the voting instructions on the voting form, to the Society's offices by 12pm on Friday 30th January 2009.

Q If I hold an account jointly with someone else, who should sign the voting form?

A. Each account holder must sign the voting form. If there are two names on the account with the Society, the Administrator will require signatures on behalf of both account holders.

Q If the account held by the Society is in the name of a congregation, who should sign the voting form?

A. The voting form must be signed by an authorised representative of the congregation.

Q What majority is required to approve a resolution?

A A resolution will be approved by the majority in value of the members/creditors of the Society who have confirmed their investments in writing and returned their voting forms to the Society's offices on or before 12pm on Friday 30th January 2009.

Q Am I bound by the Administrator's proposals if they are approved?

A Yes, even if you have voted to reject the proposals.

Q Why has a physical or formal meeting not been called?

A It would be impractical and costly to convene a physical meeting of members/creditors at this stage so the Administrator has decided, as permitted by the insolvency legislation, to conduct the business contained in this report by correspondence with the members/creditors.

It is open to an individual or a group of individuals, who hold at least 10% of the Society's total debts to require the Administrator to summon a meeting of members/creditors to consider the proposals set out in this report. To do this the Administrator must receive such a request in a Form 2.21 within 5 business days from the date on which this report has been sent out to members/creditors. The costs of summoning and holding such a meeting at the request of a member/creditor or group of members must be paid by the members/creditors requesting the meeting. Furthermore, a payment in respect of the costs of such a meeting must be deposited with the Administrator as security for payment.

Q I received a dividend from the Society in March 2008, will I receive a similar dividend in March 2009?

A Unfortunately the distributions made in March 2008 by the Society will not be made in March 2009 by the Administrator. Legally this is not possible but it is hoped that arrangements can be made for a partial distribution of capital in due course.

Q Why can I not continue to invest in the Society?

A The Administrator cannot lawfully accept new investments.

Q Have I lost all my money?

A It is not a case that all of members' money has disappeared. Your money is invested in commercial property and secured loans and the value of the commercial property and secured loans has been reduced significantly in the current economic climate.

Q What is an arrangement pursuant to Part 1 of the Insolvency (Northern Ireland) Order 1989?

A This is an agreement is known as a Company Voluntary Arrangement. It requires the members/creditors to agree to the repayment of all, or part of, of their investments/debts over an agreed period of time as opposed to the more immediate liquidation of the assets at a forced sale value. A proposal will be put to the members/creditors by the Administrator and if 75% of the members/creditors agree to the proposal, it is then binding on all members/creditors.

Q What is an arrangement pursuant to Part 26 of the Companies Act 2006?

A This is similar to the arrangement referred to in the previous question. It allows the Society to make a compromise or arrangement with its members/creditors (or any group of them) and it is put in place under the guidance of the Court.

Q If the Administrator's proposals are approved, a formal arrangement will be put to the members. What happens if the Administrator's proposals are rejected or the terms of the subsequent arrangement are rejected?

A If the Administrator's proposals are rejected, the Society may be placed into liquidation. The assets of the Society would be liquidated and, given the nature of the Society's assets, the return to members is likely to be less than they would receive over an agreed period of time through a formal arrangement. In a liquidation the loan capital of members would also rank in priority to the share capital of members and distributions would be made firstly to the members in respect of their loan capital and, after the loan capital has been repaid in full, secondly to the members in respect of their share capital.

Members/creditors should note that they can propose modifications to any subsequent arrangement put forward by the Administrator.

APPENDIX 3

A GUIDE TO THE ADMINISTRATOR'S FEES

1. Introduction

- 1.1 When a company goes into administration the costs of the proceedings are paid out of its assets. The creditors of a company who hope eventually to recover some of their debts out of the assets and income, therefore have a direct interest in the level of costs, and in particular the remuneration of the insolvency practitioner appointed to act as Administrator. The insolvency legislation recognises this interest by providing mechanisms for creditors to determine the basis of the Administrator's fees. This guide is intended to help creditors be aware of their rights under the legislation to approve and monitor fees and explains the basis on which fees are fixed.

2. The nature of administration

- 2.1 Administration is a procedure which places a company under the control of an insolvency practitioner and the protection of the court with the following objective:
- 2.1.1 rescuing the company as a going concern, or
 - 2.1.2 achieving a better result for the creditors as a whole than would be likely if the company were wound up without first being in administration, or,
 - 2.1.3 if the Administrator thinks neither of these objectives is reasonably practicable realising property in order to make a distribution to secured or preferential creditors.

3. The creditors' committee

- 3.1 The creditors have the right to appoint a committee with a minimum of 3 and a maximum of 5 members. One of the functions of the committee is to determine the basis of the Administrator's remuneration. The committee is normally established at the meeting of creditors which the Administrator is required to hold within a maximum of 10 weeks from the beginning of the administration to consider his proposals. The Administrator must call the first meeting of the committee within 6 weeks of its establishment, and

subsequent meetings must be held either at specified dates agreed by the committee, or when a member of the committee asks for one, or when the Administrator decides he needs to hold one. The committee has power to summon the Administrator to attend before it and provide information about the exercise of his functions.

4. Fixing the Administrator's fees

- 4.1 The basis for fixing the Administrator's remuneration is set out in Rule 2.107 of the Insolvency Rules (Northern Ireland) 1991, which states that it shall be fixed either:
 - 4.1.1 as a percentage of the value of the property which the Administrator has to deal with, or
 - 4.1.2 by reference to the time properly given by the Administrator and his staff in attending to matters arising in the administration.
- 4.2 It is for the creditors' committee (if there is one) to determine on which of these bases the remuneration is to be fixed and, if it is fixed as a percentage fix the percentage to be applied. Rule 2.107 says that in arriving at its decision the committee shall have regard to the following matters:
 - 4.2.1 the complexity (or otherwise) of the case;
 - 4.2.2 any responsibility of an exceptional kind or degree which falls on the Administrator;
 - 4.2.3 the effectiveness with which the Administrator appears to be carrying out, or to have carried out, his duties;
 - 4.3.4 the value and nature of the property which the Administrator has to deal with.
- 4.3 If there is no creditors' committee, or the committee does not make the requisite determination, the Administrator's remuneration may be fixed by a resolution of a meeting of creditors having regard to the same matters as the committee would. If the remuneration is not fixed in any of these ways, it will be fixed by the court on application by the Administrator.
- 4.4 There are special rules about creditors' resolutions in cases where the Administrator has stated in his proposals that the company has insufficient property to enable a distribution to be made to unsecured creditors except

out of the reserved fund which may have to be set aside out of floating charge assets. In this case a resolution of the creditors shall be taken as passed if, and only if, passed with the approval of –

4.4.1 each secured creditor of the company; or

4.4.2 if the Administrator has made or intends to make a distribution to preferential creditors – each secured creditor of the company; and

4.4.3 preferential creditors whose debts amount to more than 50% of the preferential debts of the company, disregarding debts of any creditor who does not respond to an invitation to give or withhold approval.

5. What information should be provided by the Administrator?

5.1 When seeking fee approval

5.1.1 When seeking agreement to his fees the Administrator should provide sufficient supporting information to enable the committee or the creditors to form a judgement as to whether the proposed fee is reasonable having regard to all the circumstances of the case. The nature and extent of the supporting information, which should be provided, will depend on:

5.1.1.1 the nature of the approval being sought;

5.1.1.2 the stage during the administration of the case at which it is being sought; and

5.1.1.3 the size and complexity of the case.

5.1.2 Where, at any creditors' or committee meeting, the Administrator seeks agreement to the terms on which he is to be remunerated, he should provide the meeting with details of the charge-out rates of all grades of staff, including principals, which are likely to be involved on the case.

5.1.3 Where the Administrator seeks agreement to his fees during the course of the administration, he should always provide an up to date receipts and payments account. Where the proposed fee is based on time costs the Administrator should disclose to the committee or the creditors the time spent and the charge-out value in the particular case, together with, where appropriate, such additional information as may reasonably be required having regard to the size and complexity of the case. The additional information should comprise a sufficient explanation of what the

Administrator has achieved and how it was achieved to enable the value of the exercise to be assessed (whilst recognising that the Administrator must fulfil certain statutory obligations that might be seen to bring no added value for creditors) and to establish that the time has been properly spent on the case. That assessment will need to be made having regard to the time spent and the rates at which that time was charged, bearing in mind the factors set out in paragraph 4.1 above. To enable this assessment to be carried out it may be necessary for the Administrator to provide an analysis of the time spent on the case by type of activity and grade of staff. The degree of detail will depend on the circumstances of the case, and professional guidance has been provided setting out a minimum of 6 category headings under which the work done by the officeholder and his staff should be analysed.

5.2 After fee approval

- 5.2.1 Where a resolution fixing the basis of fees is passed at any creditors' meeting held before he has substantially completed his functions, the Administrator should notify the creditors of the details of the resolution in his next report or circular to them. In all subsequent reports to creditors the Administrator should specify the amount of remuneration he has drawn in accordance with the resolution. Where the fee is based on time costs he should also provide details of the time spent and charge-out value to date and any material changes in the rates charged for the various grades since the resolution was first passed. He should also provide such additional information as may be required in accordance with the principles set out in paragraph 5.1.3. Where the fee is charged on a percentage basis the Administrator should provide the details set out in paragraph 5.1.4 above regarding work which has been sub-contracted out.

5.3 Expenses and disbursements

There is no statutory requirement for the committee or the creditors to approve the drawing of expenses or disbursements. However, professional guidance issued to insolvency practitioners requires that, where the Administrator proposes to recover costs which, whilst being in the nature of expenses or disbursements, may include an element of shared or allocated costs (such as room hire, document storage or communication facilities provided by the Administrator's own firm), they must be disclosed and be authorised by those responsible for approving his remuneration. Such expenses must be directly incurred on the case and subject to a reasonable method of calculation and allocation.

6. What if a creditor is dissatisfied?

- 6.1 If a creditor believes that the Administrator's remuneration is too high he may, if at least 25 per cent in value of the creditors (including himself) agree, apply to the court for an order that it be reduced. If the court does not dismiss the application (which it may if it considers that insufficient cause is shown) the applicant must give the Administrator a copy of the application and supporting evidence at least 14 days before the hearing. Unless the court orders otherwise, the costs must be paid by the applicant and not as an expense of the administration.

7. What if the Administrator is dissatisfied?

- 7.1 If the Administrator considers that the remuneration fixed by the creditors' committee is insufficient he may request that it be increased by resolution of the creditors. If he considers that the remuneration fixed by the committee or the creditors is insufficient, he may apply to the court for it to be increased. If he decides to apply to the court he must give at least 14 days' notice to the members of the creditors' committee and the committee may nominate one or more of its members to appear or be represented on the application. If there is no committee, the Administrator's notice of his application must be sent to such of the company's creditors as the court may direct, and they may nominate one or more of their number to appear or be represented. The court may order the costs to be paid as an expense of the administration.

8. Other matters relating to fees

- 8.1 Where there are joint Administrators it is for them to agree between themselves how the remuneration payable should be apportioned. Any dispute arising between them may be referred to the court, the creditors' committee or a meeting of creditors.
- 8.2 If the Administrator is a solicitor and employs his own firm to act on behalf of the company, profit costs may not be paid unless authorised by the creditors' committee, the creditors or the court.

9. Provision of information – additional requirements

- 9.1 The Administrator must provide certain information about time spent on a case, free of charge, upon request by any creditor, director or shareholder of the company. The information which must be provided is:

- 9.1.1 the total number of hours spent on the case by the Administrator or staff assigned to the case;
 - 9.1.2 for each grade of staff, the average hourly rate at which they are charged out;
 - 9.1.3 the number of hours spent by each grade of staff in the relevant period.
- 9.2 The period for which the information must be provided is the period from appointment to the end of the most recent period of six months reckoned from the date of the Administrator's appointment, or where he has vacated office, the date that he vacated office. The information must be provided within 28 days of receipt of the request by the Administrator, and requests must be made within two years from vacation of office.

APPENDIX 4

ANALYSIS OF TIME AND COSTS FOR THE PERIOD FROM 18TH NOVEMBER 2008 TO 2ND JANUARY 2009

	The Administrator		Partner/ Manager		Other professional staff/support		Total hours	Total cost	Average cost per hour
	hours	cost	hours	cost	hours	Cost			
		£		£		£		£	£
Administration and planning	24.9	4606.50	28.8	3557.00	1.5	91.50	55.2	8255.00	150
Trading	28.9	5346.50	13.0	1745.00	0.0	0.00	41.9	7091.50	169
Investigations	18.0	3330.00	1.0	115.00	2.0	0.00	21.0	3445.00	164
Realisation of assets	35.1	6493.50	45.8	5849.50	39.0	1477.00	119.9	13820.00	115
Members/ creditors	30.0	5550.00	31.0	3977.50	133.7	4959.50	194.7	14487.00	74
	136.9	25326.50	119.6	15244.00	176.2	6528.00	432.7	47098.50	

Average hourly rate	<u>185.00</u>	<u>127.46</u>	<u>37.05</u>	<u>108.85</u>
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	Normal hourly charge out rates	Abated Rate for PMS
	£	£
Administrator	220	185
Partner	165	140
Senior Manager	135	115
Senior staff	71-80	61
Other staff	40-50	35-40

Where remuneration has been approved on a time cost basis, a periodic report will be provided to members/creditors. The report will provide a breakdown of the remuneration drawn and will enable recipients to see the average rates of such costs.

Disbursements

Category 1 disbursements do not require approval by members/creditors. The type of disbursements that may be charged as a category 1 disbursement to a case generally comprises external supplies of incidental services from third parties specifically identifiable to the case, such as fees of professional advisers, printing, postage, case advertising, external printing, room hire, fees for swearing legal documents and document storage. Also chargeable will be any properly reimbursed expenses incurred by personnel in connection with the case.

Apart from bulk photocopying, which may be required for this specific case and which is charged per sheet at the standard charge used by this office, we do not anticipate any other expenses to be recharged as a Category 2 expense, which requires the approval of creditors.

Professional advisers

In this Administration, the Administrator has instructed the following professional advisers listed below. He has also listed the basis of his fee agreement with them.

L'Estrange & Brett (legal advice)

hourly rate, abated by 15%, and disbursements

Locktons (insurance)

risk based premiums

Smarts (public relations advice)

hourly rate abated and disbursements

Lisneys (property management agents and valuation advice)

per property management agreements

Povall Worthington (architects & surveyors)

hourly rate abated and disbursements

Paul Kendrick ARICS (property advice)

hourly rate abated and disbursements

APPENDIX 5

ADMINISTRATOR'S RECEIPTS & PAYMENTS FOR THE PERIOD 17 NOVEMBER 2008 TO 2ND JANUARY 2009

RECEIPTS	£'000
Rental income from investment properties	1,651
VAT on rental income	207
Mortgage interest on advances	1,022
Bank interest	31
Capital repayments on mortgage advances	1,562
Investments received post-administration (to be returned)	2
	<hr/>
	4,475
PAYMENTS	
Office overheads and running expenses	52
Premises expenses	2
Pre administration expenses:	
Legal expenses – L'Estrange & Brett	24
Professional fees – Arthur Boyd & Company	23
VAT on legal and professional fees	8
	<hr/>
	109
Net receipts in period	<hr/> 4,366

APPENDIX 6

STATEMENT OF AFFAIRS AS AT 17TH NOVEMBER 2008

	Book value		Estimated to realise value
	£'000		£'000
		Notes	
Assets not specifically pledged			
Mortgages	185,528	1&6	83,488
Fixed assets	1,266	2	944
Investment property	129,500	3&7	95,000
Other assets	608		114
Cash	4,774		4,774
	<u>321,676</u>		<u>184,320</u>
Preferential creditors	10		10
	<u>321,666</u>		<u>184,310</u>
Creditors	991	8	991
Members' Loans	204,398	9&10	204,398
Unsecured creditors	205,389		205,389
			(21,079)
Members shares	101,573	9&10	101,573
(Deficiency) / Surplus	<u></u>		<u>(122,652)</u>

Directors notes

- 1 Given the current economic climate and financial environment, the directors are of the view that the sale of the Society's entire loan book would generate less than half of the book value, if indeed it could be sold at all. On that basis a provision of 55% has been applied.
- 2 A provision of 25% has been applied to reflect the current downturn in the property market.
- 3 The current value of the investment properties has been based on indicative valuations provided by an independent valuer.

Administrator's comments

- 4 A summary of the company's financial position is shown opposite.
- 5 The information is a summary of the Directors' statement of affairs which was received on 5th January 2009.
- 6 The Society's loan book is not likely to be easily disposed of at fair value in the current economic climate and it would not be in the best interests of the members if the loan book was to be sold at significantly below its fair value in the current climate.
- 7 Valued for the Administrator by Lisney at 3 December 2008 at £91.9 Million. This compares with the original purchase cost of £129 Million.
- 8 Includes £724k of rent in advance and £266k due to HMRC for VAT and corporation tax due 1/1/09.
- 9 Members loans are included as creditors under the Administration provisions.
- 10 An order to limit disclosure of the detailed make up of individual shares and loans was obtained from the High Court in Belfast on 7th January 2009.
- 11 Members and creditors should note that this statement does not provide for the costs of realization or administration although it is anticipated that the latter will be covered by ongoing income of the Society.