



### Client / Matter

The Registrar of Co-operative and Financial Institutions, WA, was concerned about one of the state's major building societies.

### Appointment

We were appointed as Administrator and subsequently Liquidator pursuant to Section 71(3)(d) of the Building Societies Act 1976

### Issue

We were initially appointed as Administrators to preserve the Society's assets and to make a detailed assessment of the Society's profitability, financial position and capital adequacy requirements.

### Solution/Outcome

Our role during the administration period was to manage the day to day activities of the Society, which continued to operate during the period of the administration employing approximately 85 people.

Simultaneously, we managed a team of approximately 20 accountants and lawyers and undertook an urgent and detailed financial investigation of the Society's affairs.

We ascertained that the Society's declining profitability was a result of a reduction of revenue from traditional lending activities. This was due to a contracting depositor base reducing available funds for lending as well as a high rate of mortgage discharges. Management had then begun to change the focus of the Society's operations to include mortgage origination and property development. Further ad-hoc property purchases from, and inappropriate lending activities to, related parties again reduced funds for traditional lending. Consequently, the Society's future profitability was doubtful.

Our assessment of the financial position revealed that the Society's assets were over-valued by \$18m and the Society had a net asset deficiency of \$5.9m. The Society's adjusted net worth was significantly below that required under the Building Societies Act.

Following completion of our investigation an unqualified report of 135 pages was prepared. The report was tabled in Parliament and was subject to extensive public and legal scrutiny. The government adopted the report and implemented its recommendations.

The Society was ultimately wound up. Asset realisations in excess of \$100 million were achieved. A dividend was paid to the Society's creditors and depositors at the rate of 81.38 cents in the dollar.