

Banking Act 2009 as applied by The Building Societies (Insolvency and Special Administration) Order 2009

Administrator's progress report

Pursuant to the Banking Act 2009 as applied by The Building Societies (Insolvency and Special Administration) Order 2009 and under Rules 26 to 29 of The Building Society Special Administration (Scotland) Rules 2009

Name of Building Society Dunfermline Building Society (in building society special administration)	FSA number 9B(S)
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(a) Insert full name(s) and address(es) of administrator(s)

We (a) Richard Heis, Michael Robert Pink and Richard Dixon Fleming, all of KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB and Blair Carnegie Nimmo of KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG, Joint Building Society Special Administrators of the above building society attach a progress report for the period

(b) Insert dates

from	to
(b) 30 March 2010	(b) 30 July 2010

Signed



Joint Administrator

Dated 26.08.10

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help the Financial Services Authority to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record

James Kelly	
KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB	
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DX Number	DX Exchange



**Dunfermline Building Society
(in building society special administration)**

Joint administrators' third progress
report to creditors pursuant to Rules 26
to 29 of
The Building Society Special
Administration (Scotland) Rules 2009

26 August 2010

KPMG LLP

26 August 2010

This report contains 17 Pages



*Dunfermline Building Society
(in building society special administration)*

*Joint administrators' progress report to creditors pursuant to Rule 2.38 of
the Insolvency (Scotland) Rules 1986*

KPMG LLP

26 August 2010

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Dunfermline Building Society
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*Joint administrators' progress report to creditors pursuant to Rule 2.38 of
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KPMG LLP

26 August 2010

Notice: About this Report

This Report has been prepared by the Joint Building Society Special Administrators of Dunfermline Building Society ("DBS"), solely to comply with their statutory duty under the Rules (26 to 29) of The Building Society Special Administration (Scotland) Rules 2009, to provide the creditors with an update 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 DBS.

Any estimates of 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 choosing to rely on this report for any purpose or in any context other than under Rules 26 to 29 does so at their own risk.

To the fullest extent permitted by law, the Joint Building Society Special Administrators (the "Joint Administrators") do not assume any responsibility and will not accept any liability in respect of this report. Blair Nimmo is authorised to act as an insolvency practitioner by the Institute of Chartered Accountants of Scotland; Richard Heis and Mike Pink by the Institute of Chartered Accountants in England & Wales and Richard Fleming by the Insolvency Practitioners Association. The Joint Administrators act as agents for DBS 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.

1 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, 8 Salisbury Square, London EC4Y 8BB 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.

2 Introduction

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 third 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. The period covered by this progress report has been shortened from the usual six months further to an Order obtained from the Court of Session that the accounting period end be brought forward to 30 July 2010. The Order was made in accordance with Rules 2.41(1), 4.16 and 4.60 of the Scottish Rules and the reason for obtaining this Order was to expedite the payment of a dividend to the unsecured creditors of DBS.

The cumulative receipts and payments account for the period 30 March 2009 (the date of appointment) to 30 July 2010 is attached at Appendix 2. This shows funds in hand totalling £49.3 million as at 30 July 2010.

3 Building Society Special Administration procedure

3.1 Objectives 1 and 2 of the BSSAR

As referred to in our previous progress reports, under the BSSAR, building society special administrators have two special objectives, known as "Objective 1" and "Objective 2", which override the normal statutory objectives of administrators as set out in the Scottish insolvency regulations.

As at the date of issuing this third update report DBS remains in the Objective 1 phase. Once the Bank of England issues an Objective 1 Achievement Notice, we will issue our proposals and call a meeting of DBS' creditors as soon as practicable.

3.2 Transitional Services Agreement

As previously reported, the Administrators of DBS entered into a Transitional Services Agreement ("TSA") with NBS on 30 March 2009 for a 12 month period with a subsequent extension being agreed until 31 August 2010.

The total cost of services received from NBS under the TSA to 30 July 2010 was £1.79 million.

4 Progress to date including realisation of assets

4.1 Treasury assets

As at 30 July 2010 we have realised principal and interest relating to these assets of approximately £85.78 million. The estimated mark-to-market of the remaining assets at 29 March 2010 was £101.16 million (face value: £101.63 million). We continue to monitor regularly the remaining treasury assets and our strategy remains to hold these assets as the returns are as good, or better, than we could achieve by investing the money elsewhere and realising them earlier would not have accelerated the dividend payment to unsecured creditors (see 5.1 below).

4.2 Commercial loan portfolio

As at 30 July 2010 capital realisations from the commercial loan book totalled £50.27 million, together with £23.32 million of interest and charges; an increase of £16.43 million and £3.04 million respectively since our previous report.

We continue to hold a small number of cash deposits with RBS on trust, from commercial borrowers as collateral against their loans. In accordance with their terms a number of receipts and payments have been made from these accounts in the period in respect of rental income and mortgage payments and the total held as at 30 July 2010 was £1.07 million.

The strategy for dealing with these loans remains to collect revenue and restructure and work out the loans for the foreseeable future in order to maximise realisations (net of collection costs) for the benefit of the creditors. We will continue to assess the markets and in due course market the portfolios with a view to achieving the best outcome for creditors as a whole.

4.3 Retail loan portfolio

The portfolio is now being administered by TLS, the third party mortgage servicer. The Administrators continue to oversee these services and perform the key strategic management and controls.

As at 31 July 2010 we have realised approximately £15.54 million of capital and £7.70 million of interest and charges from the retail portfolio; an increase of £4.11 million and £1.08 million respectively since our previous report.

4.4 Equity Release

As at 30 July 2010 we had received £3.66 million of annuity payments in respect of this portfolio and a further £0.90 million relating to the period was subsequently collected in August. In the same period we have paid £0.40 million in servicing and set-up costs following the insolvency of the third party mortgage originator (IRS).

4.5 Investments in subsidiaries and other shareholdings

As reported previously Dunfermline Commercial Finance Limited ("DCF"), was placed into members' voluntary liquidation on 14 October 2009. The liquidator is in the process of preparing the tax returns of DCF for the pre-liquidation periods. A debt collected on behalf of DCF by DBS of approximately £0.35 million has been paid across and there is also a further outstanding debtor which is due for repayment in late August. Our estimate remains that the potential realisations from this liquidation will be in the region of £1.0 to £1.4 million, subject to the final quantum of valid creditors' claims and the costs of winding the company up.

Tony Friar of KPMG LLP was appointed interim liquidator of Dunfermline Services Limited ("DSL") on 18 May 2010 by the Sherrif Court in Glasgow following the presentation of a winding up petition by DSL. At a meeting of creditors held on 25 June 2010 Tony Friar was confirmed as liquidator. At present the indications are that DSL's assets total £2.96 million and its liabilities are approximately £33.7 million. It is clear that there is no prospect that DBS will see any realisation as its shareholder.

As previously reported, under the first PTI, DBS retained its interest in Funds Transfer Sharing Limited ("FTSL") (a company limited by guarantee) which was effectively a special purpose vehicle set up with other small and medium sized building societies to facilitate entry into the ATM and card market (which has now effectively been superseded by LINK). We understand that a resolution has been signed by the directors of FTSL that a special resolution be put forward to the shareholders to liquidate FTSL, and we are currently awaiting receipt of this resolution.

4.6 Assets remaining to be realised

We continue to manage the orderly wind-down of the commercial, residential and treasury portfolios. Whilst we are not currently marketing the portfolios for sale, we are also monitoring all of the portfolios and the market with a view to identifying opportunities for opportunistic sales of assets where it can be achieved at a value which we believe will maximise the return to creditors of DBS.

5 DBS creditors

5.1 Unsecured creditors

The receipt of the proceeds from the Bridge Bank Resolution Fund (£356.7 million) earlier this year allowed us to commence the dividend process for unsecured creditors.

In order to expedite the process of agreeing and paying claims we successfully applied to the Court of Session to shorten the normal six monthly accounting period (which was due to end on 30 September) to end on 30 July 2010. We have subsequently agreed unsecured claims totalling £434.9 million, including the HMT first liability claim of £427.54 million, and are in the process of paying a 100p in the £ dividend to unsecured creditors.

Given the size of the HMT first liability claim, once the claim adjudication period had passed and all unsecured creditor claims were known, the Administrators decided to settle the HMT first liability in anticipation of the unsecured dividend declaration and payment. This had the benefit of reducing the exposure of having substantial sums of cash deposited with third party banks and reducing any potential statutory interest liability accruing to HMT. The statutory interest position has not at this stage been finally determined.

5.2 Subordinated loan notes

The Trustee for £50.0 million subordinated loan notes has submitted a claim for post-administration fees and expenses of £0.1m, which have been settled as the fees were incurred largely as a result of work performed at the request of the administrators.

5.3 HMT second liability

Now that the HMT first liability has been settled in full, the remaining outstanding balance due to HMT is in relation to the second liability – which has been agreed at approximately £1,112.20 million. It is unclear at this stage what quantum of distribution HMT will ultimately receive in respect of this sum, as this depends upon future realisations from the remaining assets of DBS.



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6 Other matters

6.1 Tax and VAT matters

The final pre-appointment tax returns for the Corporation Tax Accounting Periods to 30 March 2009 have now been submitted to HMRC. We have also formally lodged a terminal loss claim in respect of Corporation tax paid for the years ended 31 December 2005 and 2006.

To date we have received a repayment of approximately £3.40 million. It is assumed that HMRC will apply Crown Set-Off in respect of the existing unsecured HMRC tax creditor of £227,875, prior to making any terminal loss repayment.

7 Joint Administrators' fees

I enclose, at Appendix 3, an analysis of our time and costs properly incurred up to 30 July 2010 (the last date our time costs were submitted for approval to the BoE). In that six month period since 29 January 2010 (the most recent date to which we have reported our time to creditors), a total of 11,082.78 hours were spent by me and my firm's staff in relation to the activities listed below at a total cost of £4,005,504.20. In accordance with the BSSAR, these costs and our hourly rates have been approved by the BoE and settled from the estate.

R Heis
Joint Building Society Special Administrator

26 August 2010



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Appendix 1

Statutory and other information



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*KPMG LLP
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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.

Extensions to initial period of appointment

To date, we have not made any request to extend the period of the administration albeit we are likely to do so at the appropriate time.

Registered office and trading address

The former registered office of Dunfermline Building Society was situated at:

Caledonia House
Carnegie Avenue
Dunfermline
Fife KY11 8PJ

As part of the Administration process, the registered office for the Company has been changed to:-

191 West George Street
Glasgow
G2 2LJ

Joint Administrators and their functions

Richard Heis, Mike Pink and Richard Fleming of 8 Salisbury Square, London EC4Y 8BB 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 1 and Objective 2 of the Building Society Special Administration of DBS.



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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 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.



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Appendix 3

Administrators' cumulative receipts and payments accounts to 30 July 2010



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Administration cumulative receipts and payments account to 30 July 2010

	30/03/2009 to 29/03/2010	30/03/2010 to 30/07/2010	30/03/2009 to 30/07/2010
Receipts	£'000	£'000	£'000
Treasury assets (interest)	2,700	1,609	4,309
Treasury assets (capital)	56,984	24,486	81,470
Commercial portfolio realisations (interest)	20,283	3,036	23,319
Commercial portfolio realisations (capital)	33,834	16,434	50,268
Retail portfolio realisations (interest)	6,617	1,082	7,699
Retail portfolio realisations (capital)	11,434	4,106	15,540
Loan collected on behalf of sub - DCF	0	348	348
Borrower receipts awaiting allocation*	0	983	983
Equity release funds received	3,070	631	3,701
Bank interest	259	658	917
Tax refund	3,547	0	3,547
Commercial Deposits (held on behalf of depositors)	1,268	(193)	1,075
Bridge Bank resolution fund	356,552	100	356,652
Total receipts	496,548	53,280	549,828
Payments			
Drawdown payments (Commercial)	(4,466)	(165)	(4,631)
Drawdown payments & servicing costs (equity release)	(1,008)	(44)	(1,052)
Swap closure costs	(4,506)	0	(4,506)
Servicing costs	(1,368)	(748)	(2,116)
Agents fees to be charged to customers	(726)	(292)	(1,018)
HMT – first liability	0	(427,538)	(427,538)
Pension fund negotiated settlement	0	(38,826)	(38,826)
Onward payment of debt collected on behalf of subsidiary – DCF**	0	(348)	(348)
Administrators' fees	(9,435)	(3,632)	(13,067)
Administrators' disbursements	(282)	(106)	(388)
Legal costs	(1,705)	(307)	(2,012)
Agents fees and other administrative costs	(597)	(788)	(1,385)
Irrecoverable VAT	(1,831)	(451)	(2,282)
Force majeure payments to unsecured creditors	(282)	0	(282)
Total payments	(26,206)	(473,245)	(499,451)
Net funds in hand	470,342	(419,965)	50,377



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Less: Monies due to depositors	(1,268)	193	(1,075)
	469,074	(419,772)	49,302

*Monthly receipts from borrowers include interest, capital and fees

** 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.



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Appendix 4

Joint Administrators' time costs from 30 January 2010 to 30 July 2010.



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**Statement of Insolvency Practice 9: summary of Administrators' time costs for the
Period from 30 January 2010 to 30 July 2010**

	Breakdown of hours charged by grade			Total hours	Time cost	Average hourly rate
	Partner/ Director	Manager	Administrator/S upport			
Charge out rate by grade per hour	£590-670	£380-480	£110-270			
Accounting & Administration	37.80	425.50	559.45	1,022.75	330,272.50	322.93
Bank & Statutory Reporting	127.30	311.65	104.60	543.55	257,667.00	474.04
Business separation and migration	133.50	2,470.40	2,097.45	4,701.35	1,724,408.70	366.79
Commercial portfolio	237.00	573.00	1,905.13	2,715.13	911,615.75	335.75
Creditors and claims	132.20	131.00	194.05	457.25	181,979.50	397.99
Equity Release portfolio	25.20	54.00	167.50	246.70	87,621.00	355.17
Pension and other employee matters	82.70	20.45	25.70	128.85	66,948.00	519.58
Retail portfolio	69.90	182.50	631.55	883.95	300,391.75	339.83
Statutory and compliance	9.10	10.00	21.20	40.30	13,047.00	323.75
Trading	11.70	0.00	35.00	46.70	16,369.00	350.51
VAT & Taxation	82.60	76.85	136.80	296.25	115,184.00	388.81
Total in period	949.00	4,255.35	5,878.43	11,082.78	4,005,504.20	361.42