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To all known creditors

Contact **James Camp**
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27 February 2013

Dear Sir / Madam

Dunfermline Building Society (in building society special administration) ("DBS")

I refer to previous correspondence regarding DBS.

Please find attached the eighth progress report to creditors pursuant to Rules 26 to 29 of The Building Society Special Administration (Scotland) Rules 2009, together with form 2.20B (Scot).

Should you require any further information, please do not hesitate to contact James Camp on the above number.

Yours faithfully
for Dunfermline Building Society

Mike Pink
Joint Building Society Special Administrator

The affairs, business and property of the Society are being managed by the joint building society special administrators who contract as agents of the building society without personal liability

Blair Carnegie Nimmo is authorised to act as an insolvency practitioner by the Institute of Chartered Accountants of Scotland
Richard Heis and Michael Robert Pink are authorised to act as insolvency practitioners by the Institute of Chartered Accountants of England and Wales
Richard Dixon Fleming is authorised to act as an insolvency practitioner by the Insolvency Practitioners Association

Enclosure: Form 2.20B (Scot), progress report

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

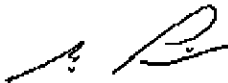
(b) Insert dates

from

(b) 31 July 2012

to

(b) 30 January 2013



Signed

Joint Building Society Special Administrator

Dated

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 Camp	
KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB	
	Tel - 0207 311 1000
DX Number	DX Exchange



Dunfermline Building Society
(in building society special administration)

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

27 February 2013

KPMG LLP
27 February 2013



27 February 2013

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(in building society special administration)
Joint administrators' progress report to creditors pursuant to Rule 2.38 of
the Insolvency (Scotland) Rules 1986
KPMG LLP*

27 February 2013

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 eighth 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 cumulative receipts and payments account for the period 30 March 2009 (the date of appointment) to 30 January 2013 is attached at Appendix 3. This shows funds in hand totalling approximately £36.27 million as at 30 January 2013.

We outline below the progress of the administration over the last six months and provide details of realisations to date.

3 Assets

3.1 Treasury assets

As at 30 January 2013 we had realised approximately £179.0 million of principal and £6.4 million of interest relating to these assets. The remaining treasury assets are products with maturity dates of over 30 years in the future, and our strategy remains to hold and collect interest on these assets, whilst we continue to monitor the market for a potential sale. We have negotiated a prepayment on these assets in order to accelerate realisations and the current face value of the remaining treasury assets as at 30 January 2013 was £3.52 million. During the period of this report, we have accrued £0.5 million of principal and interest regarding these assets.

3.2 Commercial loan portfolio

As at 30 January 2013, capital realisations from the commercial loan portfolio totalled £193.4 million, together with £66.4 million of interest and charges; representing additional receipts of £34.2 million and £7.1 million respectively since our previous report.

As advised in previous reports, the estimated realisable value of the remaining commercial loans is commercially sensitive information and the joint administrators continue to believe that disclosure of those estimates herein could seriously prejudice the commercial interests of DBS and its creditors; therefore, as previously, this information has been excluded from this report.

We continue to hold a small number of cash deposits from commercial borrowers (at RBS) on trust, as collateral against their loans. Some of these funds have been applied against the borrowers' mortgage obligations in the period but additional cash deposits have also been made where additional collateral is required. The total cash collateral deposits held as at 30 January 2013 are £0.6 million.

As we have advised in previous reports, we continue to assess conditions in the wholesale lending markets at frequent intervals, relative to our current strategy of working-out the loan book, with a view to achieving the best net outcome for creditors as a whole. At present we continue to work out the loans; however, this strategy remains under periodic review and we may, if the conditions are considered right in due course, look to sell some or all of the loan portfolios.



3.3 Retail loan portfolio

As previously reported, the retail loan portfolio is serviced by Target Servicing Limited ("Target"), our appointed third party mortgage servicer. The Joint Administrators continue to oversee Target and retain the key strategic management and controls over the assets, whilst the loans are worked out. We continue to focus our efforts on minimising the level of borrower arrears and ensuring that borrower redemptions are dealt with in an efficient manner.

Where appropriate, action has been taken against professional firms and their insurers to recover losses on mortgage loans where we believe there was evidence of negligence or other insured loss. To date this has generated a further £0.9 million of realisation. With most of the outstanding loans having been granted prior to 2006, the prospects of further material recoveries of this nature are low.

As at 30 January 2013, we have realised approximately £47.6 million of capital and £20.7 million of interest and charges from the retail portfolio; representing additional receipts of £3.4 million and £2.4 million respectively since our previous report.

3.4 Equity Release

After an intensive period of marketing by the Joint Administrators, the rights to both the Partnership and Munich Re annuity streams payable to DBS from the IRS annuities portfolio (effective from 1 March 2012) have now been sold to Partnership Life Assurance Company Limited ("Partnership") for total consideration of £49.8 million. The sale has also relieved DBS of future negative equity risk in the underlying secured real estate portfolio and from the need to collect out the annuities for a further 27 years.

At the date of completion (14 November 2012), we had received some £14.5 million of annuity payments from Munich Re and Partnership, representing annuity receipts of approximately £1.2 million since our last report. In aggregate, the annuity portfolios have realised £61.6 million since appointment, including the sale consideration, annuities and fee income from the portfolio.

3.5 Investments in subsidiaries and other shareholdings

We have previously reported that Dunfermline Commercial Finance Limited ("DCF") was in members' voluntary liquidation. We have received a total of £1.4 million from DCF in respect of the 100% shareholding held by DBS (nil received in this period). Following the liquidation's final meeting in September 2012, DCF is now dissolved.



3.6 Bank interest

As at 30 January 2013, some £2.5 million of bank deposit interest has been received since the commencement of the administration.

The Joint Administrators continue to manage cash balances held in the estate to ensure a fair market interest rate is obtained whilst also seeking to minimise credit risk in doing so.

3.7 Assets remaining to be realised

Following the sale of the IRS annuity portfolio, the loan portfolios represent the principal assets remaining to be realised, in particular the commercial loan portfolio which represents over 75% of the gross book value of all unrealised assets. As noted above, whilst we are not currently marketing the portfolios for sale, we regularly review our strategy in relation to these assets by monitoring the market with a view to identifying opportunities for opportunistic sales of assets where they can be achieved at a value which we believe will maximise the return to creditors of DBS.



4 Liabilities

4.1 Unsecured creditors

As previously reported, at the end of July 2010, the Joint Administrators agreed and paid 100p in the £ dividend to non-subordinated unsecured creditors totalling £473.72 million.

Furthermore, in September 2011 we made a payment of some £81.9 million of statutory interest to all agreed unsecured creditors, in accordance with Rule 4.66 of the Insolvency (Scotland) Rules 1986.

4.2 HMT Second Liability

Since the date of our last report, a further £80 million had been paid to HMT in respect of its' second liability claim. This brings the total paid to date under the second liability to £300 million (i.e. 27% of the total Second Liability claim). A further distribution of £30 million has been declared and paid during February 2013.

As we have previously advised, it is unclear at this stage what the total quantum of distribution HMT will ultimately receive in respect of its second liability claim, or the timing of future cash flows, as these depend upon future realisations from the remaining assets of DBS.

4.3 Subordinated loan notes

As previously reported, as the subordinated loan notes rank for distribution behind unsecured creditors, HMT's second liability claim and statutory interest, it is extremely unlikely that there will be any distribution in respect of these loan notes. The Joint Administrators have been liaising with the Trustees for the loan notes to see if the notes can be cancelled to avoid future overheads being incurred on reporting and administrative matters.

5 Other matters

5.1 Pension Fund

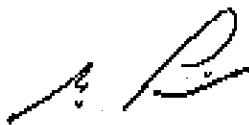
As previously reported, a £38.8 million payment was made to Aviva (via the Pension Protection Fund) in April 2010 in interim settlement of the DBS Pension Scheme Trustee's unsecured claim for the shortfall of the Scheme assets against the cost of insuring all liabilities as measured at 30 March 2009. Under the Rules of the Scheme, any surplus that remains when the Scheme is wound up must either be applied to augment benefits or can be returned to the relevant employer.

As the scheme is currently completing winding up, the Administrators are in negotiation with the Trustees about the return of a potential net surplus of £0.25 million to £0.5 million. The timing and exact quantum should be determined in the next 2-3 months and we will update creditors in our next progress report.

5.2 Joint Administrators' fees

I enclose, at Appendix 4, an analysis of our time and costs properly charged since our last report between 28 January 2012 and 30 July 2012. During this period, a total of 4,873.28 hours were spent by me and my firm's staff in relation to the activities listed in Appendix 4 at a total cost of £1,973,100.95. To date, fees have been approved by HMT and drawn for the period up to and including 23 November 2012, in accordance with the BSSAR.

Should you have any queries on anything contained within this report, please do not hesitate to contact me or my colleague James Camp on 0207 311 1365.



M R Pink
Joint Building Society Special Administrator



*Dunfermline Building Society
(in building society special administration)
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KPMG LLP
27 February 2013*

Appendix 1

Statutory and other information



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 2011) 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 was 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 2 of the Building Society Special Administration of DBS.



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Appendix 2

Transfer of business, assets and liabilities



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 January 2013

Administration cumulative receipts and payments account to 30 January 2013

	30/03/2009	31/07/2012	30/03/2009
	to	to	to
	30/07/2012	30/01/2013	30/01/2013
Receipts	£'000	£'000	£'000
Bridge Bank resolution fund	356,652	-	356,652
Treasury assets (interest)	6,379	-	6,379
Treasury assets (capital) (4)	183,746	(4,700)	179,046
Commercial portfolio realisations (interest)	59,252	7,124	66,376
Commercial portfolio realisations (capital)	159,187	34,236	193,423
Retail portfolio realisations (interest)	18,382	2,366	20,748
Retail portfolio realisations (capital)	44,208	3,379	47,587
Loan collected on behalf of sub – DCF(1)	348	-	348
Borrower receipts awaiting allocation (2)	3,251	(273)	2,978
Equity release funds received (annuities & sale proceeds)	11,331	50,301	61,632
Bank interest	1,675	856	2,531
Tax refund	7,354	-	7,354
Other assets (incl. distributions from subsidiaries)	1,917	499	2,416
Sub total	853,682	93,788	947,470
Net commercial deposits (held on behalf of depositors) (3)	144	465	609
Total receipts	853,826	94,253	948,079



Payments

Drawdown payments (commercial)	(4,903)	(46)	(4,949)
Drawdown payments & servicing costs (equity release)	(1,763)	(35)	(1,798)
Swap closure costs	(4,506)	-	(4,506)
Loan servicing costs	(3,289)	(270)	(3,559)
Onward payment of debt collected on behalf of subsidiary – DCF ⁽¹⁾	(348)	-	(348)
Administrators' fees	(21,118)	(1,716)	(22,834)
Administrators' expenses	(469)	(14)	(483)
Legal costs	(3,812)	42 ⁽⁵⁾	(3,770)
Professional advisors fees	(2,588)	(290)	(2,878)
Agents fees and other administrative costs	(4,309)	(280)	(4,589)
Irrecoverable VAT	(5,763)	(459)	(6,222)
HMT - first liability	(427,538)	-	(427,538)
HMT – second liability	(220,000)	(80,000)	(300,000)
Distribution to other unsecured creditors	(7,351)	(24)	(7,375)
Force majeure payments to unsecured creditors	(282)	-	(282)
Statutory interest to unsecured creditors	(81,850)	-	(81,850)
Pension fund	(38,826)	-	(38,826)
Total payments	(828,717)	(83,091)	(911,808)
Net funds in hand	25,109	11,160	36,269
Less: Monies due to depositors ⁽³⁾	(144)	(465)	(609)
	24,965	10,695	35,660

⁽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⁾ Monthly receipts from borrowers include interest, capital and fees, largely made up of prepayments, not yet allocated to customer accounts.

⁽³⁾ Represents the net commercial collateral deposits held with RBS on trust, opening balance restated from 7th progress report following completion of reconciliation exercise.

⁽⁴⁾ Adjustment within Treasury Assets (capital) attributable to rectification of a double-counting error that occurred between Fourth and Fifth Progress Reports

⁽⁵⁾ Positive balance due to reallocation of prior period legal costs to Irrecoverable VAT



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Appendix 4

Joint Administrators' time costs from 28 July 2012 to 30 January 2013



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**Statement of Insolvency Practice 9: summary of Administrators' time costs for the
Period from 28 July 2012 to 30 January 2013**

	Breakdown of hours charged by grade			Total hours	Time cost	Average hourly rate
	Partner/ Director	Manager	Administrator/ Support			
Charge out rate by grade per hour	£600-690	£390-490	£110-275			
Accounting & Administration	24.70	246.65	281.00	552.35	£195,901.50	£354.67
Bank & Statutory Reporting	1.50	13.50	-	15.00	£6,165.00	£411.00
Commercial portfolio	295.20	1,455.78	705.60	2,456.58	1,023,123.70	£416.48
Creditors and claims	22.10	39.20	99.45	160.75	53,735.25	£334.28
Equity Release portfolio	225.00	651.45	59.65	936.10	£433,580.25	£463.18
Pension and other employee matters	5.80	-	2.00	7.80	£4,064.00	£521.03
Retail portfolio	7.10	206.05	344.15	557.30	£179,676.75	£322.41
Statutory and compliance	19.90	44.30	35.90	100.10	£37,543.00	£375.05
VAT & Taxation	15.40	68.60	3.30	87.30	£39,311.50	£450.30
Total in period	616.70	2,725.23	1,531.05	4,873.28	£1,973,100.95	£404.88