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To all known creditors

Contact **Rebecca McDonnell**
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27 August 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 Rebecca McDonnell 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

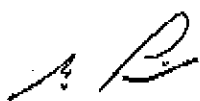
| | |
|---|-------------------------|
| Name of Building Society Dunfermline Building Society (in building society special administration) | FSA number 9B(S) |
|---|-------------------------|

(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) 31 January 2013 | (b) 30 July 2013 |



Signed

Joint Building Society Special Administrator

Dated

27-8-13

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 Rivers | |
| KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB | |
| | Tel - 0207 311 1000 |
| | |



Dunfermline Building Society
(in building society special administration)

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

27 August 2013

KPMG LLP



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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 ninth 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 July 2013 is attached at Appendix 3. This shows funds in hand totalling approximately £24.7 million as at 30 July 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 July 2013 we had realised approximately £179.7 million of principal and £6.4 million of interest relating to these assets. As we have previously reported, we had negotiated a prepayment on the remaining assets of £3.2million. This represents approximately 98p in the £ for the remaining assets. This amount (along with a further £0.2m of interest payments and prepayments) will shortly be transferred to the Joint Administrators' bank account.



3.2 Commercial loan portfolio

As at 30 July 2013, capital realisations from the commercial loan portfolio totalled £223.1 million, together with £73.4 million of interest and charges; representing additional receipts of £29.7 million and £7.0 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, the total cash collateral deposits held as at 30 July 2013 are £0.2 million.

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.

As at 30 July 2013, we have realised approximately £54.2 million of capital and £23.2 million of interest and charges from the retail portfolio; representing additional receipts of £6.6 million and £2.4 million respectively since our previous report.

To date, where appropriate, action has been taken against professional firms and their insurers to recover losses on mortgage loans where we believed there was evidence of negligence or other insured loss. To date approximately £0.9 million has been recovered through professional negligence claims we have pursued. A small number of other claims are currently subject to settlement discussions but given that most of the other outstanding loans were granted prior to 2006, there is unlikely to be many further recoveries of this nature.

3.4 Bank interest

As at 30 July 2013, some £2.6 million of bank deposit interest has been received since the commencement of the administration. The Administrators distribute surplus cash realisations on a frequent basis to ensure creditors receive distributions on a timely basis, and minimise funds remaining in the estate. The Joint Administrators continue to manage the cash balances that are held in the estate to ensure a fair market interest rate is obtained whilst also seeking to minimise credit risk in doing so.



4 Liabilities

4.1 HMT Second Liability

Since the date of our last report, a further £55 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 £355 million (i.e. 32% of the total Second Liability claim). It is intended that a further distribution of £25 million will be paid by the end of August 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.

4.2 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.

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. This is likely to be paid to the estate in September 2013.

5.2 Joint Administrators' fees

I enclose, at Appendix 4, an analysis of our time and costs properly charged since our last report between 31 January 2013 and 30 July 2013. During this period, a total of 3,670 hours were spent by me and my firm's staff in relation to the activities listed in Appendix 4 at a total cost of £1,435,243. To date, fees have been approved by HMT and drawn for the period up to and including 26 April 2013, in accordance with the BSSAR.



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

Should you have any queries on anything contained within this report, please do not hesitate to contact me or my colleague James Rivers on 0207 311 8091.

A handwritten signature in black ink, appearing to read 'M R Pink'.

M R Pink
Joint Building Society Special Administrator



*Dunfermline Building Society
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KPMG LLP*

Appendix 1

Statutory and other information



*Dunfermline Building Society
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Joint administrators' progress report to creditors pursuant to Rule 2.38 of
the Insolvency (Scotland) Rules 1986
KPMG LLP*

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 Special 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 July 2013



Administration cumulative receipts and payments account to 30 July 2013

| | 30/03/2009 to 30/01/2013 | 31/01/2013 to 30/07/2013 | 30/03/2009 to 30/07/2013 |
|---|--------------------------------|--------------------------------|--------------------------------|
| Receipts | £'000 | £'000 | £'000 |
| Bridge Bank resolution fund | 356,652 | - | 356,652 |
| Treasury assets (interest) | 6,379 | 24 | 6,403 |
| Treasury assets (capital) | 179,046 | 698 | 179,744 |
| Commercial portfolio realisations (interest) | 66,376 | 7,031 | 73,407 |
| Commercial portfolio realisations (capital) | 193,423 | 29,671 | 223,094 |
| Retail portfolio realisations (interest) | 20,748 | 2,402 | 23,150 |
| Retail portfolio realisations (capital) | 47,587 | 6,646 | 54,233 |
| Loan collected on behalf of sub – DCF(1) | 348 | - | 348 |
| Borrower receipts awaiting allocation (2) | 2,978 | 186 | 3,164 |
| Equity release funds received | 61,632 | 40 | 61,672 |
| Bank interest | 2,531 | 31 | 2,562 |
| Tax refund | 7,354 | - | 7,354 |
| Other assets (inc. distribution from subsidiaries) | 2,416 | 62 | 2,478 |
| Sub total | 947,470 | 46,790 | 994,260 |
| Net commercial deposits (held on behalf of depositors) (3) | 609 | (147) | 462 |
| Total receipts | 948,079 | 46,643 | 994,722 |



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Payments

| | | | |
|--|------------------|-----------------|------------------|
| Drawdown payments (commercial) | (4,949) | (17) | (4,966) |
| Drawdown payments & servicing costs (equity release) | (1,798) | (28) | (1,826) |
| Swap closure costs | (4,506) | - | (4,506) |
| Loan servicing costs | (3,559) | (245) | (3,804) |
| Onward payment of debt collected on behalf of subsidiary – DCF (1) | (348) | - | (348) |
| Administrators' fees | (22,834) | (1,268) | (24,102) |
| Administrators' expenses | (483) | (9) | (492) |
| Legal costs | (3,770) | (361) | (4,131) |
| Professional advisors fees | (2,878) | (362) | (3,240) |
| Agents fees and other administrative costs | (4,589) | 71 | (4,518) |
| Force majeure payments to unsecured creditors | (282) | - | (282) |
| Irrecoverable VAT | (6,222) | (524) | (6,746) |
| HMT - first liability | (427,538) | - | (427,538) |
| HMT - second liability | (300,000) | (55,000) | (355,000) |
| Distribution to other unsecured creditors | (7,375) | - | (7,375) |
| Statutory interest to unsecured creditors | (81,850) | - | (81,850) |
| Pension fund | (38,826) | - | (38,826) |
| Total payments | (911,808) | (57,743) | (969,551) |
| Net funds in hand | 36,269 | (11,100) | 25,171 |
| Less: Monies due to depositors (3) | (609) | 147 | (462) |
| | 35,660 | (10,953) | 24,709 |

(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.



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Appendix 4

Joint Administrators' time costs from 31 January 2013 to 30 July 2013



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KPMG LLP*

**Statement of Insolvency Practice 9: summary of Administrators' time costs for the
Period from 31 January 2013 to 30 July 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 | 18.70 | 158.10 | 303.15 | 479.95 | £156,522.25 | £326.12 |
| Bank & Statutory Reporting | 1.10 | 12.40 | - | 13.50 | £5,496.00 | £407.11 |
| Commercial portfolio | 271.50 | 1,324.85 | 743.35 | 2,339.70 | £978,795.75 | £418.34 |
| Creditors and claims | 30.60 | 51.50 | 151.15 | 233.25 | £78,379.25 | £336.03 |
| Equity Release portfolio | 0.40 | 20.50 | - | 20.90 | £9,445.00 | £451.91 |
| Pension and other employee matters | 7.25 | 1.80 | - | 9.05 | £5,052.00 | £558.23 |
| Retail portfolio | 14.20 | 114.15 | 218.80 | 347.15 | £104,740.50 | £301.72 |
| Statutory and compliance | 35.30 | 125.20 | 30.30 | 190.80 | £79,362.50 | £415.95 |
| VAT & Taxation | 19.30 | 10.50 | 5.95 | 35.75 | £17,449.75 | £488.10 |
| Total in period | 398.35 | 1,819.00 | 1,452.70 | 3,670.05 | £1,435,243.00 | £391.07 |