

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) 31 July 2010	(b) 30 January 2011

Signed


Joint Administrator

Dated 21.02.2011

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

Rebecca McDonnell	
KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB	
	Tel – 0207 311 4350
DX Number	DX Exchange



Dunfermline Building Society
(in building society special administration)

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

18 February 2011

KPMG LLP
18 February 2011
This report contains 18 Pages

18 February 2011

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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 fourth 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 2011 is attached at Appendix 2. This shows funds in hand totalling £136 million as at 30 January 2011.

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.

The Bank of England issued an Objective 2 Achievement Notice on 26 August 2010 and a further statement of proposals was issued by the Joint Administrators to creditors on 20 October 2010, confirming that DBS was now in the Objective 2 phase.

Objective 2 is to follow the standard administration objectives pursuant to Paragraph 3(1) (a) and (b) of Schedule B1 of the Insolvency Act 1986, being either the rescue of DBS as a going concern or achieving a better result for DBS creditors as a whole than if DBS was wound up.

Given the terms of the PTI which has transferred the majority of its assets, all employees and infrastructure to NBS or Bridge Bank, it is not possible to rescue DBS as a going concern. Accordingly, the Joint Administrators' Objective 2 is to achieve a better result for DBS's creditors as a whole than if DBS were wound up.

4 Progress to date including realisation of assets

4.1 Treasury assets

As at 30 January 2011 we have realised principal and interest relating to these assets of approximately £127.69 million. The estimated mark-to-market of the remaining assets at 29 March 2010 was £66.7 million (face value: £67.5 million). We continue to monitor regularly the remaining treasury assets and our strategy remains to hold the remaining assets allowing them to reach maturity/repayment as the returns are currently as good, or better, than we could achieve by investing the money elsewhere.

4.2 Commercial loan portfolio

As at 30 January 2011 capital realisations from the commercial loan book totalled £76.55 million, together with £33.05 million of interest and charges; representing increases of £26.28 million and £9.73 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 January 2011 was £1.70 million.

As previously reported, the strategy for dealing with these loans for the foreseeable future remains to collect revenue, restructure and work out the loans in order to maximise realisations (net of collection costs) for the benefit of the creditors. We continue to assess the markets and may, if the conditions are considered right, in due course market the portfolios with a view to achieving the best outcome for creditors as a whole.

4.3 Retail loan portfolio

As previously reported, the retail loan portfolio is serviced by Target Group ("Target"), the third party mortgage servicer. The Joint Administrators continue to oversee these services and retain the key strategic management and controls over the assets.

As at 30 January 2011 we have realised approximately £23.44 million of capital and £10.57 million of interest and charges from the retail portfolio; an increase of £7.9 million and £2.87 million respectively since our previous report.

4.4 Equity Release

By 30 January 2011, we had received £6.29 million of annuity payments and collected a further £0.1million of associated fee income in respect of this portfolio. As you are aware, following the insolvency of the third party mortgage administrator (IRS), Target

were appointed to service this portfolio, and to 30 January 2011 we have paid £0.16 million in servicing costs and incurred additional set up, insurance and legal costs of £0.25 million.

4.5 Investments in subsidiaries and other shareholdings

As reported previously, Dunfermline Commercial Finance Limited ("DCF") is in members' voluntary liquidation. All remaining book debts have now been collected, and the final pre-liquidation tax return will shortly be submitted. Our estimate of potential realisations from this subsidiary shareholding is 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. Subject to final tax clearance, we anticipate that the liquidation will be finalised and a dividend paid to DBS within the next 6 months.

As previously advised, there is no prospect of a dividend from Dunfermline Services Limited (in liquidation) to DBS as its shareholder, since there will be a significant shortfall to the unsecured creditors of DSL.

Funds Transfer Sharing Limited ("FTSL") is currently in the process of being struck off and £43k has been paid to DBS as a dividend in respect of its shareholding. No further realisations are anticipated.

4.6 Bank interest

As at 30 January 2011, some £1.12 million of bank interest has been received. 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.

4.7 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 regularly monitor 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.

5 DBS creditors

5.1 Unsecured creditors

As advised in our previous report, following receipt of the proceeds from the Bridge Bank Resolution Fund (£356.7 million) the Joint Administrators made a distribution to the non-subordinated unsecured creditors.

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. This included some £427.54 million to HMT in respect of their first liability claim and £38.83 million to the Pension Trustees.

Whilst all non-subordinated unsecured claims at 30 July 2010 were paid in full, there remain some contingent non-subordinated unsecured claims which may still crystallise against the estate, though it is not possible to gauge the probability or timing, therefore, the quantum is not expected to exceed £2 million in aggregate.

5.2 Subordinated loan notes

Since the last report, the Trustee for the £50.0 million subordinated loan notes has submitted a claim for a further £14k of administration fees and expenses, 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

As previously reported, 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.

6 Other matters

6.1 Tax

We have received an amount of £7.35m in respect of our full terminal loss claim submitted. HMRC have applied Crown Set-Off in respect of an unsecured HMRC tax

creditor of £227,875 and deducted this amount from the refund paid to DBS. We do not expect any further realisations in respect of pre-appointment tax refunds.

6.2 Meeting of creditors

The Joint Administrators' are required to hold an initial creditors' meeting as soon as reasonably practicable after the issuing of an Objective 1 achievement notice, and in any event within 10 weeks beginning with the date on which the Objective 1 achievement notice is issued.

As outlined in our Proposals issued on 20 October 2010, prior to the administration DBS issued £50,000,000 of 6% Subordinated Notes due to be redeemed on 31 March 2015 ("the Notes") which were listed on the Channel Island Stock Exchange. We have been advised that this liability is likely to rank for payment after statutory interest payable to unsubordinated creditors and the Second Liability. However, as the terms of the trust deed constituting the Notes is not explicit on this point, we have been advised that it would be prudent to obtain directions from the Court to confirm the position, both as to ranking and statutory interest.

Since the outcome of the application will determine who is entitled to vote at the creditors' meeting, the Joint Administrators have concluded that it is not appropriate and indeed is impractical to convene a creditors' meeting before the Court gives directions.

As subsequently advised (in our letter dated 23 November 2010), the Court of Session in Edinburgh extended the period for holding the initial creditors' meeting until no later than 25th January 2011.

The preparation of the application for directions has, necessarily, taken some time because it has involved open consultation with a number of the key stakeholders potentially affected by the outcome of the application. To take account of the time required to prepare the application for submission to and then hearing by the Court, the Court of Session has now extended the deadline of 25th January 2011 to 25th July 2011. Notwithstanding the extension, the Joint Administrators' will seek to call a creditors' meeting as soon as practicable after the application is heard and the directions obtained.

When a meeting of DBS creditors is convened, we will provide all creditors with at least 14 days written notice of the date, time and venue of the meeting.

7 Joint Administrators' fees

I enclose, at Appendix 3, an analysis of our time and costs properly incurred between 31 July 2010 (the date of our previous report) and 28 January 2011 (the last date our time costs were submitted for approval to the BoE). In that six month period since 31 July 2010, a total of 4,981 hours were spent by me and my firm's staff in relation to the



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activities listed below at a total cost of £1,925,656. In accordance with the BSSAR, these costs and our hourly rates have been approved by the BoE and settled from the estate.

Should you have any queries, please do not hesitate to contact my colleague Rebecca McDonnell on 0207 311 4350.


pp R Heis
Joint Building Society Special Administrator



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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

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 2 of the Building Society Special Administration of DBS.

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 January 2010**



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

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

18 February 2011

**Administration cumulative receipts and payments account to 30
January 2011**

	30/03/2010 to 30/07/2010	31/07/2010 to 30/01/2011	30/03/2009 to 30/01/2011
Receipts	£'000	£'000	£'000
Treasury assets (interest)	4,309	651	4,960
Treasury assets (capital)	81,470	41,261	122,731
Commercial portfolio realisations (interest)	23,319	9,732	33,051
Commercial portfolio realisations (capital)	50,268	26,279	76,547
Retail portfolio realisations (interest)	7,699	2,869	10,568
Retail portfolio realisations (capital)	15,540	7,904	23,444
Loan collected on behalf of sub - DCF	348	0	348
Borrower receipts awaiting allocation*	983	2,421	3,404
Equity release funds received	3,701	2,584	6,285
Bank interest	917	206	1,123
Tax refund	3,547	3,807	7,354
Commercial Deposits (held on behalf of depositors)	1,075	628	1,703
Bridge Bank resolution fund	356,652	0	356,652
Total receipts	549,828	98,341	648,169

Payments

Drawdown payments (Commercial)	(4,631)	(137)	(4,768)
Drawdown payments & servicing costs (equity release)	(1,052)	(43)	(1,095)
Swap closure costs	(4,506)	0	(4,506)
Loan servicing costs	(2,116)	(186)	(2,302)
Agents fees (recharged to customers)	(1,018)	(667)	(1,685)
Onward payment of debt collected on behalf of subsidiary – DCF**	(348)	0	(348)
Administrators' fees	(13,067)	(1,015)	(14,082)
Administrators' disbursements	(388)	(37)	(425)
Legal costs	(2,012)	(494)	(2,506)
Agents fees and other administrative costs	(1,385)	(745)	(2,130)
Irrecoverable VAT	(2,282)	(339)	(2,621)
Force majeure payments to unsecured creditors	(282)	0	(282)
HMT – first liability	(427,538)	0	(427,538)
Pension fund	(38,826)	0	(38,826)
Distribution to other unsecured creditors	0	(7,351)	(7,351)
Total payments	(499,451)	(11,014)	(510,465)
Net funds in hand	50,377	87,327	137,704
Less: Monies due to depositors	(1,075)	(628)	(1,703)
	49,302	86,699	136,001

* 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 31 July 2010 to 30 January 2011.

**Statement of Insolvency Practice 9: summary of Administrators' time costs for the
Period from 31 July 2010 to 28 January 2011**

	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	£600-690	£390-490	£110-275			
Accounting & Administration	46.10	562.80	180.70	789.60	304,795.50	386.10
Bank & Statutory Reporting	36.60	76.75	36.30	149.65	64,413.50	430.43
Business separation and migration	9.60	53.50	10.50	73.60	32,717.00	444.52
Commercial portfolio	255.00	1,083.00	1,263.00	2,596.00	973,114.00	374.85
Creditors and claims	84.00	69.00	63.15	216.15	100,819.00	466.43
Equity Release portfolio	5.20	55.00	87.00	147.20	52,517.50	354.33
Pension and other employee matters	5.50	23.00	48.25	76.75	25,711.25	335.00
Retail portfolio	74.30	317.60	333.50	730.40	284,681.25	389.76
Statutory and compliance	44.40	23.00	21.95	89.35	40,327.00	451.34
VAT & Taxation	35.60	4.80	71.50	111.90	46,919.50	419.30
Total in period	596.30	2,268.45	2,115.85	4,980.60	1,925,655.50	386.63