



BANK OF ENGLAND

News release

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Dunfermline Building Society

The Bank of England has announced today that core parts of Dunfermline Building Society have been transferred to Nationwide Building Society. Dunfermline's retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) have all been transferred to Nationwide. This follows a sale process conducted by the Bank of England over the weekend of 28-29 March under the Special Resolution Regime provisions of the Banking Act 2009.

It is business as usual for all customers. Dunfermline's deposit business will continue to operate normally. Branches and telephone banking will continue to open during their normal hours and customers can deposit and withdraw their money in the usual ways. Savers can be assured that their money is safe. Loan and mortgage customers can continue to contact Dunfermline in the usual way and should continue to make repayments as normal. All of Dunfermline's staff have been transferred to Nationwide.

The decision to transfer parts of Dunfermline's business to Nationwide is **designed to protect depositors and safeguard financial stability**. It follows a significant deterioration in Dunfermline's financial position. The FSA determined on Saturday 28 March that Dunfermline was likely to fail to meet the FSA's threshold conditions for authorisation and that there was no other option available which would have enabled the company to satisfy the threshold conditions.

The social housing loans of Dunfermline's customers (and related deposits) have been transferred temporarily to DBS Bridge Bank Ltd, a 'bridge bank' owned and controlled by the Bank of England. This allows the Bank of England to support Dunfermline's social housing portfolio, consistent with the objectives of the Special Resolution Regime, and provides time to secure a permanent solution.

A court order was made earlier today to place the remainder of Dunfermline's business into the Building Society Special Administration Procedure (BSSAP) and to appoint KPMG as the administrator. This part of the business includes commercial loans, acquired residential mortgages, subordinated debt and most treasury assets.

In making these decisions, the Bank of England has acted under the powers conferred on it by the Banking Act 2009 and in accordance with the Code of Practice issued by HM Treasury. The decisions followed

consultation with the FSA and HM Treasury and an evaluation of the possible resolution options against the Special Resolution Regime's objectives laid down in the Banking Act.

HM Treasury has concluded that if the transfer powers had not been exercised, Dunfermline would be unable to satisfy depositors' claims against it. The Treasury has made a payment to Nationwide to cover the liabilities that are not covered by the assets that Nationwide is also acquiring. In return, the Treasury has acquired rights in respects of the proceeds of the wind-down and realisation of the assets of the administration estate, and is entitled to a claim on the Financial Services Compensation Scheme (FSCS) as outlined in Section 214B of the Financial Services and Markets Act 2000. The Treasury intends therefore to require the FSCS to make a contribution to the transfer costs at the end of resolution in accordance with the Financial Services and Markets Act.

The transfer to Nationwide Building Society took effect today through the issue of a Property Transfer Instrument by the Bank of England, available on the Bank of England's website. The Treasury will also lay a copy of the transfer instrument before Parliament in accordance with the provisions of the Banking Act 2009.

Notes for editors

1. Objectives of the Special Resolution Regime

The Banking Act 2009, which became law in February, creates a Special Resolution Regime (SRR) which gives the Tripartite authorities – the Treasury, Bank of England and Financial Services Authority (FSA) - a permanent framework providing tools for dealing with distressed banks and building societies. When selecting and exercising these tools, the relevant authority must have regard to the following Special Resolution Objectives set out in the Act:

- to protect and enhance the stability of the financial systems of the United Kingdom
- to protect and enhance public confidence in the stability of the banking systems of the United Kingdom
- to protect depositors - to protect public funds
- to avoid interfering with property rights in contravention of a Convention right (within the meaning of the Human Rights Act 1998).

These objectives are not ranked in the Banking Act. The relative weighting and balancing of objectives will vary according to the particular circumstances of each failure, including both (a) circumstances specific to the distressed institution; and (b) general circumstances relating to the wider financial system.

2. Special Resolution Regime tools

The Special Resolution Regime (SRR) tools under the Act comprise one or more of:

- Placing the whole of the bank or building society into the Bank Insolvency Procedure, which facilitates a rapid payout by the Financial Services Compensation Scheme to eligible depositors, or the transfer of their deposits.

- Transferring all or part of the business of a bank or building society to a private sector purchaser or a bridge bank owned by the Bank of England. Where only part of the business is transferred, the remainder of the bank or building society may be placed into a Bank Administration Procedure (BAP) or Building Society Special Administration Procedure (BSSAP) (as in this case). The BAP/BSSAP requires the administrator to provide such services and facilities to the private sector purchaser or the bridge bank (as the case may be) as are necessary to allow it to operate effectively.
- Transferring the bank or building society to temporary public ownership of the Treasury (TPO).

The transfer tools can only be exercised by the Bank if it considers that their use is necessary in the public interest (as set out in section 8 of the Act, and having regard to the public interest considerations set out therein). TPO is selected and exercised by the Treasury if it considers it necessary to reduce or resolve a serious threat to financial stability or to protect the public interest where public funds that had been given to the bank or building society for this purpose (as set out in section 9 of the Act). The Authorities must also have regard to the special resolution objectives, and the statutory code of practice (the latter of which establishes guidelines for the selection and use of the tools).

3. The Bank of England's action follows the FSA's determination (after the required consultation with HM Treasury and the Bank) that the Special Resolution general conditions were satisfied, including that.

- (i) Dunfermline Building Society was failing, or was likely to fail, to satisfy the threshold conditions for operating as a deposit taker under the Financial Services and Markets Act 2000; and
- (ii) it was not reasonably likely that action would be taken by or in respect of Dunfermline that would enable it to satisfy the threshold conditions.

The Bank of England is further satisfied that it is necessary to take this action in the public interest in accordance with Section 8 of the Banking Act 2009, having consulted the FSA and the Treasury.

4. Under Section 78 of the Banking Act 2009, the Bank of England may not exercise a stabilisation power in respect of a bank or building society without the Treasury's consent if the exercise would be likely to have implications for public funds. HM Treasury has granted consent under this section.

5. DBS Bridge Bank Ltd. is a company incorporated in Scotland and wholly owned by the Bank of England. It is authorised and regulated by the FSA and will carry on the social housing business transferred to it until a permanent solution can be found.

6. The Bank has taken measures in the property transfer instrument to ensure that it has complied with the safeguards for protected market arrangements set out in the Banking Act (Restrictions of Partial Property Transfers) Order 2009. The property transfer instrument will not operate to transfer property, rights and liabilities in a manner that would otherwise contravene these safeguards.

7. Further information about the Special Resolution Regime is available on the Bank of England's website.

Dunfermline Building Society - Property Transfer Instrument 2009

http://www.bankofengland.co.uk/financialstability/Documents/role/risk_reduction/srr/resolutions/dunfermlinecombinedtransferinstrument.pdf