



23 December 2009

Mr Ian Burns
Head of Valuations
Smith & Williamson Ltd
25 Moorgate
London, EC2R 4AY

The Dunfermline Building Society Compensation Scheme, Resolution Fund and Third Party Compensation Order 2009 (S.I. 2009/1800) (the “Compensation Order”)

Appointment as independent valuer: remuneration arrangements

Dear Mr Burns,

1. I refer to your appointment as independent valuer pursuant to the invitation to potential candidates dated 14 October 2009 (the “Invitation”), the supplemental information you provided and the letter of the Appointment Panel dated 22 December 2009. This letter adopts the definitions used in the Invitation.
2. This letter sets out the arrangements for the payment of your remuneration and the reimbursement of your expenses.

Assessment amount

3. We will pay you an amount of £1.08 million (excluding VAT) being the fixed fee for all work undertaken and all expenses incurred during the period from the date of your appointment until the date on which you have completed all the functions referred to in article 4 of the Compensation Order. In the case of the function referred to in article 4(a) of the Compensation Order, “completed” means you have issued the last assessment notice to be issued under paragraphs 4 and 10 of Schedule 2 to the Compensation Order. In this letter this amount is referred to as the “assessment amount” and the period in question as the “assessment period”.
4. We may also pay you for additional work reasonably undertaken and additional expenses reasonably incurred up to a total value of £200,000 (excluding VAT) for work undertaken and expenses incurred during the assessment period in the event the value of the total work undertaken and expenses incurred exceeds the assessment amount. This amount is referred to as the “contingencies reserve”. We will only make payments from the contingencies reserve where-
 - a. it has been demonstrated that the value of the total work undertaken and expenses incurred exceed the assessment amount (calculated using the rates set out in Annex 1); and
 - b. an independent person appointed by the Treasury¹ (the “independent monitor”) has certified that

¹ Under article 3(2) of the Dunfermline Building Society Independent Valuer Order 2009 (S.I. 2009/1810) (“the Independent Valuer Order”).

- i. the value of the total work undertaken and expenses incurred exceeds the assessment amount; and
- ii. that such additional work undertaken or expenses incurred have been reasonably undertaken or incurred (in accordance with the procedure set out in paragraph 12).

Remuneration for work reasonably undertaken and expenses reasonably incurred on this basis will be calculated in accordance with the rates set out in Annex 1 to this letter.

5. The assessment amount and contingencies reserve have been agreed on the basis of the assumption that you will have timely access to relevant financial and other business information reasonably requested from Dunfermline and its administrators for the purpose of conducting the functions specified in article 9(3) of the Compensation Order.
6. The assessment amount and any payments from the contingencies reserve will be paid on the basis set out in Annex 1 to this letter.
7. Payments will commence once the independent has certified that your time and expenses recording systems are capable of recording adequately the work undertaken and expenses incurred by you, your staff and advisers in relation to this appointment. The independent monitor will be asked to verify on a regular basis that the work and expenses for which payment is sought have been reasonably undertaken or incurred in the discharge of your functions as valuer.

Additional work undertaken or expenses incurred

8. If the assumption set out in paragraph 5 is not met in practice then any resulting additional work reasonably undertaken by you or expenses reasonably incurred during the assessment period will be paid in accordance with the rates set out in Annex 2 and the procedure in paragraph 12. Any such payments will be additional to the payments made in accordance with paragraph 3 (and, if necessary, payments made in accordance with paragraph 4).
9. Remuneration for work reasonably undertaken and reimbursement for expenses reasonably incurred by you-
 - a. after the assessment period, or for the reason given in paragraph 8; or
 - b. where the work is done or expenses are incurred during or after the assessment period, in connection with:
 - i. any judicial review proceedings challenging any action, decision or opinion of yours or ours, or
 - ii. any other legal proceedings brought against you, which relate to the discharge of your functions as independent valuer,

will be paid in accordance with the rates set out in Annex 2 and the procedure set out in paragraph 12. Any such payments will be additional to the payments made in accordance with paragraph 3 (and, if necessary, payments made in accordance with paragraph 4).

10. Reimbursement in respect of any award of damages or costs against you in proceedings listed in paragraph 9(b) will be similarly provided.
11. There will be no entitlement to any payment in accordance with paragraph 9(b) or 10 where the alleged default or liability is admitted or otherwise accepted by you, or is determined by a Court to have been caused by your wrongful act or negligence. You will

repay within 30 days of such admission or acceptance or determination any such amounts paid to you.

12. The independent monitor will review any invoices from you for work undertaken or expenses incurred of the description set out in paragraphs 4, 8 and 9. You should send invoices relating to any such remuneration or expenses to the independent monitor, together with an explanation of the reasons why the work had to be undertaken or the expenses had to be incurred. Within 30 days of receipt of the invoice, the independent monitor will either confirm in writing to you and the Treasury whether the work or expenses have been reasonably undertaken or incurred, or request further information from you about the invoices. It is expected that the independent monitor will notify you and the Treasury within 14 days of receipt of any further information as to whether he or she considers that there is sufficient evidence that the work or expenses have been reasonably undertaken or incurred.
13. The Treasury will pay your invoice with 10 days of receipt of the notification from the independent monitor confirming that the work or expenses have been reasonably undertaken or incurred.

Appointment of staff

14. The Independent Valuer Order provides that the valuer may appoint such staff as the valuer may determine. The Independent Valuer Order also provides that the valuer shall determine the remuneration and other conditions of service of the staff so appointed and pay such pensions, allowances or gratuities to or in respect of staff so appointed as the valuer may determine.
15. The determination of remuneration and other conditions of service of, and the payment of pensions, allowances and gratuities to, staff appointed by the valuer requires the approval of the Treasury. If you wish to appoint staff you must notify and seek the approval of Jamil Mohamed (jamil.mohamed@hmtreasury.gsi.gov.uk) and all such correspondence should be copied to valuer.enquiries@hmtreasury.gsi.gov.uk
16. For the avoidance of doubt, for these purposes “staff” means persons who are your employees, whether on a temporary or permanent basis and does not include staff employed by your firm. Any charges incurred for the use of staff employed by, or other resources within, your firm will be considered to form part of your expenses and, if incurred during the assessment period, are included (subject to paragraphs 4 and 8) in the assessment amount.

Time and expenses recording systems

17. The systems for recording time spent (both your time and that of your staff), and for verifying that any expenses for which you may seek reimbursement additional to those included in the assessment amount are incurred in the discharge of your duties as valuer, are as described in Annex 3 to this letter.

Yours sincerely,

Catherine Adams, Head of the Financial Stability Contingency Team
Signed for and on behalf of the Treasury

