

UK ASSET RESOLUTION LIMITED AND UK FINANCIAL INVESTMENTS LIMITED:
RELATIONSHIP FRAMEWORK DOCUMENT¹

Introduction

1. This framework document (the “Framework Document”) has been drawn up by UK Asset Resolution Limited² (the “Company”) and UK Financial Investments Limited (“UKFI”) following:
 - (A) the coming into effect of the Bradford & Bingley plc Transfer of Securities and Property Order 2008 (S.I. 2008/2546);
 - (B) the coming into effect of the Northern Rock plc Transfer Order 2008 (S.I. 2008/432) and the Northern Rock plc Transfer Order 2009 (S.I. 2009/3226);
 - (C) the loan facilities provided by HM Treasury to Northern Rock (Asset Management) plc (“NRAM”) and Bradford & Bingley plc (“B&B”) (NRAM and B&B, together with their respective subsidiaries, are referred to as the “UKAR Subsidiaries”);
 - (D) the guarantee arrangements put in place by HM Treasury in respect of NRAM and B&B;
 - (E) the transfer of HM Treasury’s shareholdings in NRAM and B&B to the Company, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury;
 - (F) the transfer to UKFI of the management of HM Treasury’s shareholding in the Company.
2. The Framework Document sets out the structure of how the day-to-day relationship between the Company and UKFI (acting on behalf of HM Treasury) will work in practice. The Framework Document will be revised from time to time if so required by HM Treasury or UKFI as circumstances change.
3. The Framework Document should be interpreted in light of the Company’s memorandum and articles of association and English company law and is without prejudice to the statutory and other rights and obligations of HM Treasury, UKFI, the Company and the board of directors of the Company (the “Board”).

¹ This relationship framework document takes effect as of 1 October 2010 and is intended to replace the shareholder relationship framework document drawn up by Bradford & Bingley plc and UK Financial Investments Ltd which took effect on 12 April 2010 and the shareholder relationship framework document drawn up by Northern Rock (Asset Management) and UK Financial Investments Ltd on 1 January 2010.

² Company number 730196.

Overall aim and the Board's responsibilities

4. The ongoing relationship between the Company, UKFI, HM Treasury (as shareholder of the Company and provider of financial support to NRAM and B&B) and the Financial Services Authority ("FSA") as regulator will operate in the context of the overarching objective of protecting and creating value for the taxpayer, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition.
5. Subject to the provisions of paragraphs 10 to 15 (inclusive), the Board is responsible for setting the Company's strategic aims and for developing and recommending revisions to the Company's (and the UKAR Subsidiaries') business plan (the "Plan") to deliver the overarching objective referred to above. The Board is also responsible for ensuring that the necessary financial and human resources are in place for delivery of the agreed Plan and for setting the Company's values and standards (and those of the UKAR Subsidiaries) and ensuring that its obligations to HM Treasury as shareholder are understood and met.
6. The Board is also responsible for procuring that the UKAR Subsidiaries adopt and adhere to the provisions of this Framework Document insofar as such provisions relate to or refer to the UKAR Subsidiaries to enable the Company to comply with its obligations to UKFI under this Framework Document.
7. In particular, wherever the Company is required to seek consent or approval from UKFI under this Framework Document in relation to any matter relating to or in respect of a UKAR Subsidiary, the Board shall procure that consent or approval to such matter is sought by the relevant UKAR Subsidiary from UKFI.
8. Nothing in this Framework Document affects the rights of the Financial Services Compensation Scheme Limited (the "FSCS") as set out in the Bradford & Bingley Transfer of Securities and Property Order 2008 (S.I. 2008/2546) (the "B&B Transfer Order"). Under the B&B Transfer Order, HM Treasury, B&B and the FSCS are required to agree terms for reducing B&B's liability to the FSCS. These arrangements may include separate monitoring arrangements for the benefit of the FSCS

Relationship between the Company and UKFI: framework principles

9. The basic relationship between the Company and UKFI operates according to principles under which UKFI (acting on behalf of HM Treasury as shareholder of the Company and provider of financial support to NRAM and B&B):
 - (A) appoints the Chairman of the Board and is entitled to appoint one or more Non-Executive Directors;
 - (B) (i) is required to give its consent for the appointment of other members of the Board proposed to be appointed by the Board's Nominations Committee and agrees the terms on which the Directors are appointed and incentivised; (ii) is required to give its consent for the appointment of other members of the board of NRAM proposed to be appointed by NRAM board's Nominations Committee and agrees the terms on which the NRAM

directors are appointed and incentivised; (iii) is required to give its consent for the appointment of other members of the board of B&B proposed to be appointed by the B&B board's Nominations Committee and agrees the terms on which the B&B directors are appointed;

- (C) agrees with the Board the high level objectives that the Plan is designed to achieve (including in relation to the UKAR Subsidiaries) and any revisions to the Plan;
- (D) reviews with the Board from time to time the Company's strategic options (including in relation to the UKAR Subsidiaries);
- (E) requires that the Board is accountable to it for delivering the agreed Plan;
- (F) gives the Board the freedom to take the action necessary to deliver the Plan (including delivery of the Plan by the UKAR Subsidiaries);
- (G) monitors the Company's performance to satisfy itself that the Plan is on track (including in relation to the UKAR Subsidiaries); and
- (H) is required to give its consent for certain significant actions (including those set out in paragraphs 25 and 26 below). The following paragraphs explain in more detail how these principles are to be put into practice.

Principles in practice

Board structure and governance

10. The Company will operate a group corporate governance structure that provides a framework for the relationship between the Board and UKFI which, so far as practicable and in light of the other provisions of this Framework Document or as otherwise may be agreed with UKFI, takes appropriate account of best practice for a holding company of financial institutions listed on the Official List, including the UK Corporate Governance Code. The Board will constitute the following committees:
 - (A) Audit Committee;
 - (B) Risk Committee;
 - (C) Remuneration Committee; and
 - (D) Nominations Committee.
11. The Company shall procure that the boards of B&B and NRAM replicate the composition of the Board and adopt and operate a corporate governance structure which enables the Company to effectively and efficiently operate its corporate governance structure and to comply with its obligations under this Framework Document. Such corporate governance structure of B&B and NRAM should be

consistent with the principles set out in paragraph 10 above, including as to the constitution of committees as per paragraph 10.

Board appointments

12. The composition of the Board is a critical factor for UKFI. The aim is to secure an environment in which UKFI and the Chairman of the Board share a common view about Board composition (including size and balance of experience and background) and succession. To achieve this, the following will take place:
 - (A) the Chairman of the Board and either the Chairman of UKFI or a senior employee nominated by the Chairman of UKFI (the "Nominated Officer") will discuss and confirm Board composition and succession regularly in light of performance of the Board and the requirements of the Plan;
 - (B) UKFI will be entitled to appoint to the Board one or more Non-Executive Directors nominated by it (the "Shareholder Directors"). The Company acknowledges that the Shareholder Directors, if appointed, intend to liaise with and report to representatives of UKFI from time to time in relation to the business of the Company and decisions made or to be made by the Board in order to assist with the exercise of their powers and duties as directors of the Company;
 - (C) one or more senior representatives of UKFI will, if so requested by UKFI, attend meetings of the Board in an observer capacity;
 - (D) the Chairman of the Board will discuss with the Nominated Officer any impending changes to Board membership;
 - (E) the Chair of the Nominations Committee will meet with the Nominated Officer as necessary to discuss, and to obtain UKFI's approval of, any proposed Board changes before they become subject to the formal appointment/consent procedure; and
 - (F) the Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chairman of the Board and the Board.
13. The governance structure for NRAM and B&B is to replicate the structure, and rights granted to UKFI, as described in paragraph 12, and the Company shall exercise its rights as the sole shareholder of NRAM and B&B to give effect to the foregoing.

The Plan: developing and implementing strategies

14. The Plan has been prepared by the Board to meet the overarching objective outlined above. There will need to be effective dialogue between UKFI representatives (including the Nominated Officer) and Company representatives to enable the strategy required to meet the overarching objective and the Plan to be understood and agreed.

15. UKFI representatives (including the Nominated Officer) and Company representatives will also meet from time to time, as agreed, to review the strategic options available to the Company (including in relation to the UKAR Subsidiaries).
16. The Board recognises UKFI's mandate to develop and execute an orderly and active disposal of HM Treasury's investments in financial institutions (including the UKAR Subsidiaries) in line with the shareholder relationship framework document between UKFI and HM Treasury, and UKFI recognises the Board's obligation to act in accordance with their statutory and other duties. The Board will work collaboratively with UKFI to develop strategic options relating to the disposal of the Company, its business or its assets (including in particular any divestment, buy-out or merger and acquisition options and any such options in relation to the UKAR Subsidiaries).
17. The Board will seek to accommodate any strategic options or changes in strategic direction proposed by UKFI. The Company will keep UKFI fully informed of all developments and will consult UKFI prior to making any final decisions about implementation (including in relation to the UKAR Subsidiaries).
18. The strategic aims developed by the Board and any proposed change in strategic direction (including in relation to the UKAR Subsidiaries) will require review by, and the approval of, UKFI. It is important that at a preliminary stage UKFI understands the likely feasibility of any such aim or proposal. Accordingly, the Board will develop a process that ensures that UKFI is fully involved at a preliminary stage in developing and implementing any such aim or proposal. The Company will also inform UKFI of any approaches from third parties for the acquisition of the Company or its business (including any of its assets and those of the UKAR Subsidiaries), and UKFI will keep the Company updated on any similar approaches from third parties.
19. Any proposed revisions to the Plan, whether as a result of any change in strategic direction or otherwise, will be subject to review by, and the approval of, UKFI. This includes any conditions in relation to state aid approvals which may require revisions to be made to the Plan.
20. Any material adverse variation in actual performance or the Board's view of the outlook for the Company (including in relation to the UKAR Subsidiaries and as a result of re-forecasting), in each case as against the base case set out in the Plan, will require the Board promptly to set out its recommended mitigating strategic actions to UKFI for its review and approval.

Delivering the Plan – incentivisation

21. UKFI's approval will be required for remuneration packages and any incentivisation arrangements for Directors and senior management (as defined in the FSA remuneration code) of the Company and the structure of the incentive schemes for other employees of the Company. UKFI's interest is primarily in ensuring that remuneration and other incentives are:
 - (A) sufficient to attract and motivate high calibre individuals to drive the delivery of the Plan; but

- (B) aligned with the overarching objective outlined above and compliant with the G20 remuneration principles and the FSA remuneration code.
22. UKFI requires any incentive arrangements for Executive Directors and senior management (as defined in the FSA remuneration code) to be tied closely to performance as measured by the achievement of the Plan. UKFI is committed to paying market rates for success. Conversely, UKFI does not condone rewards for failure and would expect the Board to support the removal of any Director responsible for a failure to deliver the Plan or for other serious failure.
23. Directors and senior management incentive schemes should be developed and recommended by the Remuneration Committee for approval by UKFI. The Remuneration Committee should discuss and agree with UKFI the terms of these incentive arrangements, including:
- (A) appropriate targets to incentivise delivery of the Plan within the parameters of the base and upside cases;
 - (B) appropriate annual targets in light of annual budgets;
 - (C) appropriate market benchmarking of targets and incentive levels;
 - (D) appropriate consideration of remuneration levels throughout the Company
 - (E) appropriate conditions for resetting the terms of the incentive schemes where necessary.
24. The Chair of the Remuneration Committee will discuss proposals at an early stage with UKFI in order to input UKFI's views into the process. In particular, the Remuneration Committee will share with UKFI its proposals for any staff incentive schemes before any announcement of their terms to staff so that UKFI can confirm whether they are consistent with the principles set out in the Plan and this Framework Document.
25. The incentivisation and remuneration structure for NRAM and B&B is to replicate the structure, and rights granted to UKFI, as described in paragraphs 21 to 24 and the Company shall exercise its rights as the sole shareholder of NRAM and B&B to give effect to the foregoing.

Delivering the Plan -the Board's freedom to act

26. UKFI is committed to giving the Board the freedom to act to deliver the agreed Plan. In that context, and save as provided in this Framework Document, UKFI will not interfere in day-to-day operational and commercial matters (including in relation to the UKAR Subsidiaries);
27. Subject to this Framework Document and the Company's memorandum and articles of association, decisions on the day-to-day running of the Company will rest with the Board in accordance with the Directors'statutory, common law and fiduciary responsibilities.

28. The Board will notify UKFI of proposed terms of engagement prior to the appointment of external advisers on or after 1 October 2010 in connection with divestments or the development/implementation of any strategic options relating to the Company, its business or its assets (including those of the UKAR Subsidiaries). Prior to any appointment of such external advisers, their terms of reference will require review by, and the approval of, UKFI.

Monitoring the Company's performance

29. UKFI will regularly monitor the Company's performance against the Plan (including in relation to the UKAR Subsidiaries) by means of the following mechanisms:

- (A) monthly (or at UKFI's request, more frequent) meetings as the centrepiece of the formal reporting relationship between the Company and UKFI. The purpose of these meetings between the Executive Directors of the Company and senior representatives of UKFI (including the Nominated Officer) is to provide a forum to review performance to date against Plan objectives, but each meeting is primarily intended to be weighted towards being a forward-looking and risk-based analysis of progress of the Plan;
- (B) monthly (or at UKFI's request, more frequent) financial and business performance monitoring to assist this process. UKFI expects to be provided with prompt and accurate financial and business information at the same level as the Board and which is transparent to ensure that all key financial and business data pertinent to tracking the progress of the Plan, the Company's performance against agreed objectives and the performance of the UKAR Subsidiaries against their objectives can be reviewed and monitored on a timely, regular and appropriate basis;
- (C) the Company will promptly and without delay disclose to UKFI any information:
 - (i) that it receives which is required to be disclosed to HM Treasury under the terms of the amended loan facility provided by HM Treasury to B&B; the terms of the loan facility provided to NRAM; or which concerns or impacts the ability of NRAM or B&B to fulfil their obligations under the loan facilities;
 - (ii) that would have required public disclosure if the Company (or any of the UKAR Subsidiaries) were listed on the Official List; or
 - (iii) which otherwise may have a significant bearing on the delivery of, or may have a significant impact on the assumptions or objectives set out in, the Plan;
- (D) in addition to the regular meetings, meetings between Directors and representatives of UKFI to discuss the affairs of the Company and/or the UKAR Subsidiaries at UKFI's request; and
- (E) in addition to the monitoring procedure described above, UKFI will be entitled

on reasonable notice to such information in relation to the affairs of the Company, including access to the Company's financial models and personnel and information it holds on the UKAR Subsidiaries, as it may reasonably consider necessary or desirable from time to time.

30. UKFI will have approval rights over:
- (A) any material acquisitions, disposals, investments, realisations or other transactions (including by, or in relation to, the UKAR Subsidiaries);
 - (B) transactions or matters that the Board can reasonably foresee will exclude any strategic outcome contemplated by the Plan or proposed by UKFI (including by, or in relation to, the UKAR Subsidiaries);
 - (C) any actions that require HM Treasury's approval, consent or agreement under the terms of the loan arrangements made between HM Treasury and B&B and HM Treasury and NRAM; and
 - (D) any other actions that may have a significant bearing on the delivery of the Plan (including in relation to the UKAR Subsidiaries) or prejudice the overarching objective outlined above.
31. UKFI's approval rights over material transactions will include the right to approve any acquisition, disposal, investment, realisation or other transaction which is strategically material to, or outside the ordinary course of business of, the Company or any of the UKAR Subsidiaries (as applicable). For illustrative purposes, a transaction will be material where (individually or, if such transactions are related, in the aggregate):
- (A) the gross assets subject to the transaction are over £100 million; or
 - (B) the net profits attributable to the assets (including the net profit impact of the transaction over a period of 12 months starting with the date on which the transaction is commenced) are over £5 million; or
 - (C) the assets subject to the transaction are proposed to be disposed of at a discount or premium which is not in line with discounts or premiums current in the market for comparable assets.

For the purposes of determining materiality, the thresholds referred to above should be referable to transactions occurring within a rolling twelve month period and the value of assets should exclude any provision or write down which has been made in respect of those assets.

The Company accepts that as circumstances change, UKFI may notify the Company and/or the UKAR Subsidiaries of changes to the thresholds set out in 31(A) and 31(B) above.

Litigation and Claims Handling

32. UKFI, on behalf of HM Treasury, has an interest in the handling of material litigation involving the Company or any of the UKAR Subsidiaries for a number of reasons. In particular, any such litigation may have significant implications for the public purse, may give rise to reputational issues for HM Treasury and may raise wider points of public law on which HM Treasury has significant expertise, such as state aid issues or the correct interpretation of the Transfer Orders (as defined in paragraph 35 below).
33. UKFI will require information regarding, and oversight of, any material litigation or claims concerning the Company or any of the UKAR Subsidiaries, by means of the following mechanisms:
- (A) UKFI is to be promptly informed of any actual or prospective litigation or other proceedings (including arbitration or other forms of alternative dispute resolution procedure) (“Proceedings”) by or against the Company or any of the UKAR Subsidiaries which may materially affect the Company or any of the UKAR Subsidiaries;
 - (B) the Company must respond fully and as soon as is practicable to all requests from UKFI for information and documents relating to any such Proceedings and, should UKFI so request, keep UKFI fully informed of all material developments and consult and cooperate with UKFI in respect of the conduct of the Proceedings (and the Company shall procure that the UKAR Subsidiaries comply with the foregoing);
 - (C) the Company and any of the UKAR Subsidiaries must not make any admissions or admit any liability with respect to any such Proceedings brought against it or settle or compromise or offer to settle or compromise the same without the prior written consent of UKFI. UKFI will not unreasonably withhold or delay any such consent and it is not UKFI’s intention to request involvement in proceedings which are in the ordinary course of the Company’s or the UKAR Subsidiaries’ business unless UKFI considers it to be reasonably necessary to protect the interests of HM Treasury or UKFI; and
 - (D) UKFI shall be informed of material claims, actions or demands before any Proceedings are commenced or threatened by the Company or any of the UKAR Subsidiaries. UKFI will then consider whether it wishes to veto or otherwise request to be involved in some manner in the Proceedings and the Company will comply (and the Company shall procure that the UKAR Subsidiaries will comply) with UKFI’s request. It is not UKFI’s intention to intervene where Proceedings are in the ordinary course of the Company’s or the UKAR Subsidiaries’ business unless UKFI considers it to be reasonably necessary to protect the interests of HM Treasury or UKFI.
34. Nothing in this Framework Document, or otherwise, shall have the effect of giving UKFI the right to possession, inspection or copies of any documents relevant to

matters in issue as against itself or HM Treasury in any litigation, arbitration, tribunal or alternative dispute resolution procedure or administrative, governmental, regulatory or other investigation or enquiry.

Expenses

35. UKFI and HM Treasury intend to recharge to the Company or, where appropriate, the UKAR Subsidiaries, financial, legal and other advisory, management and administrative costs that are or have been reasonably incurred in connection with the Northern Rock plc Transfer Order 2008 (S.I. 2008/432) or its implementation, the Northern Rock plc Compensation Scheme Order 2008 (S.I. 2008/718) or its implementation, the Northern Rock plc Transfer Order 2009 (S.I. 2009/3226) or its implementation, the Bradford & Bingley plc Transfer of Securities and Property Order 2008 (S.I. 2008/2546) or its implementation, the Bradford & Bingley plc Compensation Scheme Order 2008 (S.I. 2008/3249) or its implementation (collectively the "Transfer Orders") or in the exercise of the functions of HM Treasury or UKFI in relation to the Company. Wherever possible, process and expected budget will be discussed and agreed between the Company and UKFI prior to such costs being incurred.

The Company's relationship with UKFI and the Tripartite Authorities

36. The Company and UKFI share the common objective of having a working relationship which achieves the overarching objective outlined above and in which:
- (A) the respective roles of the Company and UKFI are clearly defined; and
 - (B) the Company and UKFI recognise and respect those roles, and the demands placed upon each party to fulfil them.
37. The Company will interact with UKFI as contemplated by this Framework Document and will continue to interact with HM Treasury and other members of the Tripartite Authorities as and when necessary or appropriate.
38. The Company recognises that:
- (A) UKFI will interact with HM Treasury and the other members of the Tripartite Authorities in respect of matters relating to the Company or any of the UKAR Subsidiaries or this Framework Document, as and when necessary or appropriate, in accordance with the provisions of the framework document drawn up between HM Treasury and UKFI; and
 - (B) UKFI may, or may require the Company to:
 - (i) provide information to HM Treasury and the other Tripartite Authorities in respect of matters relating to the Company or any of the UKAR Subsidiaries or this Framework Document; and
 - (ii) consult with, or seek the approval of, HM Treasury in respect of

matters relating to the Company or any of the UKAR Subsidiaries or this Framework Document.

39. HM Treasury will be responsible for co-ordinating the Tripartite Authorities' actions in relation to the Company and the UKAR Subsidiaries, in accordance with the Memorandum of Understanding between the Tripartite Authorities. The FSA as regulator has statutory responsibilities to fulfil and these arrangements are entirely without prejudice to those responsibilities.
40. The interactions referred to above between the Company, UKFI and HM Treasury need to be underpinned by resolve on all sides to conduct affairs on the basis of a professional, efficient, trust-based dialogue:
 - (A) professional: professional people engaged in dialogue relevant to delivering the Tripartite Authorities' objectives, with commitments delivered on time and to specification;
 - (B) efficient: all parties ensuring a joined-up and efficient approach amongst their constituent elements; and
 - (C) trust-based: open dialogue, based on a shared commitment to providing the Company with the ability to progress.

Ensuring success

41. The success of the relationship depends in the end on the nature and quality of the relationship between the Board, HM Treasury and UKFI. The overall responsibility for ensuring that the intentions of this Framework Document are carried out in practice lies ultimately with the Chairman of the Board, the Chancellor of the Exchequer and the Chairman of UKFI. The Chairman of the Board will maintain regular contact with the Nominated Officer. Below them, senior individuals within the Company and UKFI will be nominated who will have the responsibility to ensure that all contacts between the Company and UKFI are conducted at the right level, with the right people, and in the right spirit.