

BRADFORD & BINGLEY SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

Introduction

1. This framework document (the “**Framework Document**”), has been drawn up by Bradford & Bingley plc (the “**Company**”) and its shareholder, Her Majesty’s Treasury (the “**Shareholder**”) following the coming into effect of the Bradford & Bingley plc Transfer of Securities and Property Order 2008 (the “**Transfer Order**”). It sets out the structure of how the day-to-day shareholder relationship between the Company and the Shareholder will work in practice. The Framework Document may be revised from time to time where required by the Shareholder as circumstances change. The Framework Document should be interpreted in the light of the Company’s memorandum and articles of association and English company law and is without prejudice to the Shareholder’s statutory and other rights and obligations.

Overall aim

2. The Company and the Shareholder share the common objective of having a working relationship which achieves the objectives of the Company and the Tripartite Authorities (comprising the Shareholder, the Bank of England and the Financial Services Authority (the “**FSA**”) and in which:
 - the respective roles of the Company and the Shareholder are clearly defined;
 - the Company and the Shareholder recognise and respect those roles, and the demands placed upon each party to fulfil them; and
 - dialogue and interactions are professional, efficient, and based on trust.

The ongoing relationship between the Company and the Shareholder as shareholder, the Shareholder and the Bank of England as providers of financial support and the FSA as regulator will operate in the light of the Tripartite Authorities’ stated objectives:

- (i) to **protect taxpayers**;
- (ii) to **promote financial stability**; and
- (iii) to **protect consumers**.

3. The Board of Directors of the Company (the “**Board**”) is responsible for developing and recommending the Company’s strategic and funding plan (the “**Business Plan**”) to deliver the objectives of the Shareholder and those of the Tripartite Authorities referred to in the paragraph above.
4. Nothing in this shareholder framework affects the rights of the Financial Services Compensation Scheme (**FSCS**) as set out in the Transfer Order. Under the Transfer Order, HM Treasury, the Company and the FSCS will agree terms for reducing the Company’s liability to FSCS. These arrangements may include separate approval and monitoring arrangements for the FSCS's benefit

Government as shareholder

5. The basic relationship between the Company and the Shareholder operates according to principles under which the Shareholder:
 - appoints the Chairman of the Board and may appoint one or more Non-Executive Directors;
 - must 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;
 - determines the high level objectives that the Business Plan is designed to achieve and agrees the Business Plan with the Board;
 - must agree any subsequent updates to the Business Plan;
 - reviews with the Board from time to time the Company’s strategic options;
 - requires that the Board is accountable to it for delivering the agreed Business Plan;
 - gives the Board the normal commercial freedom to take the action necessary to deliver the Business Plan;
 - monitors the Company’s performance to satisfy itself that the Business Plan is on track; and
 - must give its consent for certain significant actions.

The following paragraphs show how these principles are to be put into practice.

Principles in practice

Board structure and governance

6. The Company will operate a corporate governance structure that provides a framework for the relationship between the Board and the Shareholder which, so far as practicable

and in the light of the other provisions of this Framework Document or as otherwise may be agreed with the Shareholder, takes appropriate account of best practice for a company listed on the Official List, including the Combined Code on Corporate Governance. The Board will constitute the following committees of the Board:

- Audit and Risk Committee;
- Remuneration Committee; and
- Nominations Committee.

Board appointments

7. The composition of the Board is a critical factor for the Shareholder. The aim is to secure an environment in which the Shareholder and the Chairman 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:

- the Chairman and either the Chancellor of the Exchequer or a senior official nominated by the Chancellor of the Exchequer (the “**Nominated Official**”) will discuss and confirm Board composition and succession initially, and regularly thereafter, in the light of performance and the requirements of the Business Plan;
- one or more Non-Executive Directors nominated by the Shareholder (the “**Shareholder Directors**”) may be appointed to the Board. The Company acknowledges that the Shareholder Directors, if appointed, intend to liaise with and report to representatives of the Shareholder 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;
- one or more senior representatives of the Shareholder will, as requested by the Shareholder, attend meetings of the Board of the Company in an observer capacity;
- the Chairman will discuss with the Nominated Official any impending changes to Board membership;
- the Nominated Official will meet the Chair of the Nominations Committee as necessary to discuss any proposed Board changes before they become subject to the formal appointment/consent procedure outlined in paragraph 4 above; and
- the Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chairman and Board.

Strategy and funding: the Business Plan

8. The Business Plan will be prepared by the Board to meet the Shareholder’s objectives. The Business Plan will be subject to review by, and the approval of, the Shareholder. This process will be achieved through effective dialogue between Shareholder

representatives (including the Nominated Official) and Company representatives to enable the strategy and funding assumptions required to meet these objectives to be understood and agreed.

9. Shareholder representatives (including the Nominated Official) and Company representatives will also meet from time to time, as agreed, to review the strategic options available to the Company.
10. In this context:
 - any conditions in relation to state aid approvals may require revisions to be made to the Business Plan which will require review by, and the approval of, the Shareholder;
 - material adverse variations in either (a) actual performance or (b) management's view of the outlook (including as a result of re-forecasting), in each case as against the base case set out in the Business Plan, will require the Board promptly to set out its recommended intended mitigating strategic actions to the Shareholder. This may result in revisions to the Business Plan which will require review by, and the approval of, the Shareholder; and
 - any change in strategic direction not contemplated by the Business Plan or other material changes proposed to the Business Plan as a result of any outcomes from the assessment of strategic options will require review by, and the approval of, the Shareholder.
11. It is possible that, as circumstances develop, other strategic approaches might emerge that would meet the Shareholder's objectives better. It is important that at an early stage the Shareholder understands the likely feasibility of such options. Accordingly, the Board and the Shareholder will develop a process that keeps these options, including in particular any divestment, merger and acquisition options, under review at appropriate intervals. Any specific proposals that emerge in discussions with the Board will require review by, and the approval of, the Shareholder.
12. Should a change in strategy be required that is better suited to meet the Shareholder's objectives, then the Company will amend the Business Plan accordingly for review and approval by the Shareholder. The Company is required to inform the Shareholder promptly of any approaches to or from third parties in respect of any matters for which Shareholder approval would be required under this Framework Document.

Delivering the Business Plan – incentivisation

13. The Shareholder's approval will be required for remuneration packages and any incentivisation arrangements for Directors and senior management of the Company and the structure of the incentive schemes for other employees of the Company. The Shareholder's interest is primarily in ensuring that remuneration levels are sufficient to attract and motivate high calibre individuals to drive the delivery of the Business Plan and that incentives are aligned with the stated objectives of the Shareholder.

14. The Shareholder requires any incentive arrangements for Executive Directors and senior management to be tied closely to performance as measured by the achievement of Business Plan objectives. The Shareholder is committed to paying market rates for success. Conversely, the Shareholder does not condone rewards for failure, and would expect the Board to support the removal of any Director or member of senior management responsible for a failure to deliver the Business Plan or for other serious failure.
15. The Shareholder expects Directors and senior management incentive schemes to be developed and recommended by the Board's Remuneration Committee for approval by the Shareholder. The Remuneration Committee should discuss and agree with the Shareholder the terms of these incentive arrangements, including:
 - appropriate targets to incentivise delivery of the Business Plan in base and upside cases;
 - appropriate annual targets in light of annual budgets;
 - appropriate market benchmarking of targets and incentive levels;
 - appropriate incentives to encourage a successful conclusion of the Company's public ownership and the repayment of and release from all financial support provided by the public sector and the Financial Services Compensation Scheme; and
 - appropriate conditions for resetting the terms of the incentive schemes where necessary.
16. The Board's Remuneration Committee will share its proposals for any staff incentive schemes before any announcement of their terms to staff to confirm they are consistent with the principles set out in the Business Plan and this Framework Document.

Delivering the Business Plan – the Board's freedom to act

17. The Shareholder is committed to giving the Board the commercial freedom to act to deliver the agreed Business Plan. In that context, and save as provided in this Framework Document, the Shareholder will not interfere in day-to-day operational and commercial matters.
18. 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.
19. The Board will notify the Shareholder of proposed terms of engagement prior to the appointment of external advisers. Prior to any appointment of external advisers, their terms of reference will require review by, and the approval of, the Shareholder.

Monitoring the Company's performance

20. The Shareholder will regularly monitor the Company's performance against the Business Plan by means of the following mechanisms:

- regular shareholder meetings as the centrepiece of the formal reporting relationship between the Company and the Shareholder. The purpose of these meetings between the Executive Directors of the Company and senior representatives of the Shareholder (including the Nominated Official) is to provide a forum to review performance to date against Business Plan objectives, but each meeting is primarily intended to be weighted towards being a forward-looking and risk-based analysis of progress against the Business Plan;
- regular financial and business performance monitoring to assist this process. The Shareholder 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 achievement of the Business Plan and the Company's performance against agreed objectives can be reviewed and monitored on a timely, regular and appropriate basis;
- the Company will promptly and without delay disclose to the Shareholder any information that would have required public disclosure if it were listed on the Official List or 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 Business Plan;
- in addition to the regular shareholder meetings, meetings between Directors and representatives of the Shareholder to discuss the affairs of the Company at the Shareholder's request;
- in addition to the monitoring procedure described above, the Shareholder 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, as it may consider necessary or desirable from time to time; and

21. The Shareholder will have approval rights over:

- any material acquisitions, disposals, investments, realisations or other transactions;
- transactions or matters that the Board can reasonably foresee will exclude or limit any strategic outcome contemplated by the Business Plan; and
- any other actions that may have a significant bearing on the delivery of the Business Plan or prejudice the stated objectives of the Tripartite Authorities.

The Shareholder's approval rights over material transactions set out above will include approval rights over any acquisition, disposal, investment, realisation or other transaction outside the ordinary course of business of the Company. For illustrative

purposes, these types of transactions will be material where either (individually or, if such transactions are related, in the aggregate):

- the gross assets subject to the transaction are over £500 million; or
- the net profits attributable to the assets subject to the transaction are over £50 million.

As the Business Plan develops and circumstances change, it may become prudent for the Shareholder to discuss with the Company any changes to the thresholds referred to above.

Litigation and Claims Handling

22. The Shareholder will require information regarding, and oversight of, any material litigation or claims concerning the Company or its group, by means of the following mechanisms:

- the Shareholder 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 its group which may materially affect the Company;
- the Company must respond fully and as soon as is practicable to all requests from the Shareholder for information and documents relating to any such Proceedings and, should the Shareholder so request, keep the Shareholder fully informed of all material developments and consult and cooperate with the Shareholder in respect of the conduct of the Proceedings;
- the Company or any member of its group 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 the Shareholder. The Shareholder will not unreasonably withhold or delay any such consent and it is not the Shareholder's intention to request involvement in proceedings which are in the ordinary course of the Company's business unless the Shareholder considers it to be reasonably necessary to protect the interests of the Shareholder; and
- the Shareholder shall be informed of material claims, actions or demands before any Proceedings are commenced or threatened by the Company or any member of its group. The Shareholder 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 with the Shareholder's request. It is not the Shareholder's intention to intervene where Proceedings are in the ordinary course of the Company's business unless the Shareholder considers it to be reasonably necessary to protect the interests of the Shareholder.

Nothing in the above provisions, or otherwise, shall have the effect of giving the Shareholder the right to possession, inspection or copies of any documents relevant to matters in issue as against itself in any litigation, arbitration, tribunal or alternative dispute resolution procedure or administrative, governmental, regulatory or other investigation or enquiry.

Expenses

23. The Shareholder will recharge to the Company financial, legal and other advisory costs that are or have been incurred in connection with the Transfer Order or its implementation, or in the exercise of the Shareholder's functions in relation to the Company.

Shareholder relationship

24. Interactions between the Company and the Shareholder need to be underpinned by resolve on both sides to conduct affairs on the basis of a professional, efficient, trust-based dialogue:
- professional: professional people engaged in dialogue relevant to delivering the Tripartite Authorities' objectives, with commitments delivered on time and to specification;
 - efficient: both parties ensuring a joined-up and efficient approach amongst their constituent elements; and
 - trust-based: open dialogue, based on a shared commitment to providing the Company with the ability to progress.
25. The Company will continue to have interactions with other members of the Tripartite Authorities as and when necessary and appropriate. The Shareholder will be responsible for co-ordinating the Tripartite Authorities' actions in relation to the Company, in accordance with the Memorandum of Understanding between the Tripartite Authorities. The Financial Services Authority as regulator has statutory responsibilities to fulfil and these arrangements are entirely without prejudice to those responsibilities.

Ensuring Success

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

