

APPOINTMENT: INDEPENDENT VALUER FOR NORTHERN ROCK COMPENSATION SCHEME

1. This document sets out the basis upon which applications are invited for appointment as the independent valuer under the Northern Rock Compensation Scheme.
2. Applications should be sent to valuer.enquiries@hm-treasury.gov.uk and must be received no later than 4th July.

A. Background information

Statutory framework

3. On 22nd February 2008 all the ordinary, foundation and preference shares in Northern Rock plc were transferred to the Treasury by means of the Northern Rock plc Transfer Order (the "Transfer Order") made under the Banking (Special Provisions) Act 2008 (the "Act"). The Transfer Order also extinguished certain rights to receive shares in Northern Rock. Rights in relation to certain instruments were also affected by the Transfer Order.
4. The Act provides that the Treasury must, by order, set up a scheme for determining the amount of any compensation payable by the Treasury to those whose shares were transferred or whose rights were otherwise affected by the Transfer Order. The Treasury has made the Northern Rock plc Compensation Scheme Order 2008 (the "Compensation Scheme Order") which establishes such a compensation scheme (the "Compensation Scheme").
5. The Compensation Scheme provides for the appointment by the Treasury of an independent valuer to determine the amount of any compensation payable by the Treasury to the persons specified in Part 2 of the Compensation Scheme.

Remit

6. The person appointed will be required to discharge the functions of the independent valuer under the Compensation Scheme. In summary, the valuer is required to do the following:
 - (a) The valuer must determine the amount of any compensation payable by the Treasury in accordance with the Compensation Scheme and communicate those determinations by means of "assessment notices" which must include, amongst the other matters specified in paragraph 11 of the Compensation Scheme, the reasons for the valuer's decision.

- (b) If the Treasury or any person affected by the determination of the amount of any compensation which is contained in an assessment notice is dissatisfied with the assessment notice, they may require the valuer to reconsider his or her determination. Where the valuer is required to reconsider his or her determination he or she is required to issue a revised assessment notice setting out, amongst the other things specified in paragraph 12 of the Compensation Scheme, whether the original assessment notice is upheld or varied, the amount of any compensation determined by the valuer as payable and the reasons for the valuer's decision.
- (c) If the Treasury or any person affected by a determination of the amount of any compensation which is contained in a revised assessment notice is dissatisfied with the revised assessment notice, they may refer the matter to the Financial Services and Markets Tribunal ("the Tribunal"). The valuer then acts as a respondent in the Tribunal proceedings.
- (d) Where the Tribunal concludes that the decision as to the amount of any compensation shown in the revised assessment notice was not a reasonable decision, the Tribunal must remit the matter to the valuer for reconsideration in accordance with such directions (if any) as the Tribunal considers appropriate. The valuer must then reconsider his or her determination in accordance with any such directions.

Procedure

7. The valuer may make such procedural rules in relation to the assessment of any compensation (including the procedure for the reconsideration of any decisions relating to the assessment of compensation) as he or she considers appropriate. The procedure followed by the valuer must be fair. The procedural rules will be a matter for the valuer but might cover such matters as communications between the valuer and interested parties, the handling of evidence, deadlines etc.
8. The valuer will also act as the respondent in any proceedings before the Tribunal. The valuer will be expected to act so as to facilitate the smooth operation of the appeals process.

Compensation to be determined

9. The valuer is required to determine the amount of any compensation payable by the Treasury to:–
- Those who held ordinary, foundation or preference shares in Northern Rock immediately before they were transferred by the Transfer Order;
 - Those whose rights to receive shares in Northern Rock (whether by subscription, conversion or otherwise) were extinguished by article 4 of the Transfer Order; and

- Those whose consequential rights were extinguished by article 12 of the Transfer Order.

Statutory valuation assumptions

10. Section 5(4) of the Act sets out certain assumptions to be made in determining the amount of any compensation payable by the Treasury. The assumptions are that all financial assistance provided by the Bank of England or the Treasury to the deposit-taker in question has been withdrawn (whether by the making of a demand for repayment or otherwise) and that no financial assistance would in future be provided by the Bank of England or the Treasury to the deposit-taker in question, apart from the Bank of England's ordinary market assistance subject to its usual terms.
11. The Compensation Scheme Order, as permitted by section 9 of the Act, sets out two further valuation assumptions to be made about Northern Rock. The two additional assumptions to be made in determining the amount of any compensation payable by the Treasury to any relevant person are:
 - that Northern Rock is unable to continue as a going concern; and
 - that it is in administration.

B. Remuneration

Basis for remuneration

12. The Compensation Scheme provides that the valuer will be paid such remuneration and reimbursed such expenses as the Treasury may determine.
13. The Treasury will pay the valuer a fixed amount (the “assessment amount”) by way of remuneration for work done and reimbursement of expenses incurred from the date of his or her appointment up to the issue of the last assessment notice issued under paragraph 11 of the Compensation Scheme (the “assessment period”). This amount will cover both remuneration of the valuer and reimbursement of expenses, including the remuneration of the valuer’s staff and any professional advisers’ fees.
14. The Treasury is prepared to consider proposals for making staged payments of the assessment amount on the basis of a maximum of 75% of the assessment amount being paid during the assessment period, with the final 25% being paid within 30 days of issue of the valuer’s last assessment notice under paragraph 11 of the Compensation Scheme.
15. The Treasury will not make payments in advance of work being done or expenses incurred.
16. Remuneration in respect of any work the valuer is required to do, and reimbursement of any expenses reasonably incurred, after the issue of his or her last assessment notice, including any work in issuing revised assessment notices under paragraph 12 of the Compensation Scheme and acting as respondent before the Tribunal, will be paid or reimbursed monthly in arrears.
17. In the case of such further remuneration, payment will be made on the basis of agreed hourly or daily rates. These rates will be agreed with the valuer at the time of his or her appointment. The Treasury will appoint an independent third party to confirm that the further remuneration has been properly incurred in the discharge of the valuer’s duties.
18. In the case of reimbursement of such further expenses, the independent third party will be asked to confirm that the expenses have been reasonably incurred in the discharge of the valuer’s duties.

Cost and timing assumptions

19. Applicants for appointment will be required to provide an indicative timetable for the valuation process and a quotation for the assessment amount. Such an indicative timetable and quotation for the assessment amount should be provided on the basis of the following assumptions:

(i) Availability of requested information and access to management

The valuer will have timely access to the current management of Northern Rock (which will co-operate and assist the valuer) and to relevant financial and other business information from Northern Rock. The majority of such data is available electronically. However, should the valuer require time on-site, Northern Rock will provide access to office space.

(ii) Information provided

Historical and forward looking financial information from Northern Rock will not require any substantial processing in the form of, for example consolidation, de-consolidation or reconciliation.

20. If either of these assumptions is not met, or other facts or matters become apparent or events occur which could not have been reasonably foreseen at the time the assessment amount is agreed, and additional work is undertaken and/or expenses incurred as a consequence, additional remuneration in respect of such work reasonably undertaken and/or reimbursement of such expenses reasonably incurred will be agreed between the valuer and the Treasury. The Treasury will appoint an independent third party to assess the justification for and amount of any such additional remuneration or expenses.

21. For the avoidance of doubt, the Treasury regards any application for judicial review of a decision or action taken by the valuer as an unforeseeable circumstance for these purposes. Remuneration for work done and expenses incurred by the valuer in connection with any judicial review (whether the work is done or expenses incurred during or after the assessment period) will be dealt with in accordance with paragraphs 17 and 18 above.

Time and expenses recording systems

22. Applications should include details of the systems you will operate for recording time spent on this matter (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 independent valuer.

C. Criteria for appointment

23. The following criteria are required to be satisfied in order for an applicant to be considered for appointment as valuer:

- a) **Demonstrable independence** from Government and interested parties.
- b) **Freedom from conflicts of interest:** given the number of organisations that have been involved in advising parties in relation to Northern Rock to date, some potential candidates may be ruled out because of actual or potential conflicts of interest.

24. In considering which person to appoint, the following additional criteria will be relevant:

- a) **Professional skills and experience:** the primary qualification for the valuer is extensive professional financial company valuation skills. The valuer is likely to need to draw on a range of professional expertise, notably accountancy, investment banking and legal. We would expect the valuer to have high standing and credibility in their profession.
- b) **Experience and ability to carry out a high profile public process:** in addition to being able to carry out the professional task of assessing any compensation, the valuer will need to have the capacity, resources, personal bearing and robustness to -
 - i) manage a high-profile, potentially multi-stage, public process involving some 200,000 former shareholders (individual and institutional, domestic and international) and other affected parties in a timely and efficient manner; and
 - ii) explain his or her assessment to a range of different audiences (from individuals to potentially the Tribunal) in writing, in person and through professional intermediaries such as lawyers if necessary.
- c) **Track record of timely delivery:** applicants will need to demonstrate by reference to an existing track record that they will be adequately resourced and capable of discharging the function of independent valuer in a timely and efficient manner in the absence of conventional contract performance management by a client.
- d) Overall **value for money** is also an important criterion against which applications will be judged.

D. Information required to be provided by applicants

25. The following section sets out the information and confirmations which should be included in applications for appointment as valuer in order to enable the applications to be assessed.

Evidence in respect of criteria for appointment

26. Section C sets out criteria which will be considered in making the appointment. Applications for appointment should include evidence of satisfaction of the criteria including evidence of qualifications, experience and examples of previous engagements where relevant qualifications and skills have been utilised.

Conflicts of interest

27. Applications for appointment as valuer must also include:

- (A) confirmation that you have no actual or potential conflict between any personal or business interests and your functions as valuer that could influence, or be reasonably perceived to influence, your judgement in performing your functions as valuer, if appointed.
- (B) confirmation that you will not engage any staff who, to the best of your knowledge having made reasonable enquiries, have any such actual or potential conflict.
- (C) confirmation that you will take appropriate steps to ensure that, if appointed, neither you nor any staff are placed in a position where there is any actual or potential conflict between any personal or business interests and your or their functions that could influence, or be reasonably perceived to influence, your or their judgements in performing your or their functions.
- (D) confirmation that you will disclose to former shareholders, the Treasury and other interested parties full particulars of any such actual or potential conflict of interest that may arise.

28. Applicants should include information about any involvement which he or she or, if applicable, their firm had in Northern Rock and set out in detail the measures applicants will adopt, if successful, to ensure that the applicant, and staff who will be concerned in the valuation exercise, have no contact with individuals or data connected to that involvement.

29. Applicants from firms that might expect to do business with some of Northern Rock's former institutional shareholders must include an explanation as to how they plan to avoid conflicts of interest.

Timetable

30. It is in the interests of all persons affected by the Transfer Order that any compensation payable is determined as quickly as reasonably practicable. You will therefore be expected to conduct your valuation in a timely manner.
31. Given the opportunity for affected parties or the Treasury to request the valuer to reconsider his or her determination and for dissatisfied parties to refer revised assessment notices to the Tribunal, it is not possible for applicants to say with certainty how long it will take for the valuation process to be completed through to the final determination, if necessary, of any reference to the Tribunal.
32. However applicants are required to submit an indicative planning timetable for their conduct of the valuation, if appointed, through to the issue of the last revised assessment notice on the basis of the assumptions set out in paragraph 19, along the following lines:

<i>Activity</i>	<i>Duration</i>	<i>Comments</i>
Valuer establishes and communicates procedures		
Valuer makes determinations under Part 2 of Scheme and issues assessment notices		
Those affected, if dissatisfied, require the valuer to reconsider		
Valuer reconsiders his/her determinations and issues revised assessment notices		
Total duration:		

Remuneration and expenses

33. Applications should include a quotation, on the basis of the assumptions contained in Section B, for the assessment amount. A breakdown of the total amount should be provided split between the valuer's own remuneration and expenses. Estimated expenses should be shown under broad headings, such as estimated remuneration of the valuer's staff, legal costs, costs of other professional advisers, travel and accommodation costs, and any contingency risk reserve. The valuer's estimated expenses in respect of costs of professional staff not directly employed by the valuer should preferably be shown by level of staff member, chargeable rate per staff level, and category of work to be undertaken.
34. An applicant who wishes interim payments of the assessment amount to be made should indicate the proposed phasing on the basis of a maximum of 75% of the assessment amount being paid during the assessment period, with the final 25% being paid within 30 days of issue of the valuer's last assessment notice under paragraph 11 of the Compensation Scheme.

35. Applications should also include a schedule setting out:

- a. the rates at which time would be billed for work by the valuer not included in the assessment amount, and
- b. intended charging rates for proposed staff and other expenses for work not included in the assessment amount, and estimates of any reasonably foreseeable expenses for which a specific charging rate is not proposed.

Staff and resources

36. Applicants must provide details of any resources, which may include investment banking, legal and administrative resources, available to them to enable them to assist in the exercise of their function as valuer, if appointed. The administrative resources required for communications with shareholders are discussed separately below.

37. If the valuer is a member of a firm, please identify whether those resources will come from within the same firm and also areas where it may be necessary to seek external advice.

38. The Compensation Scheme provides that the valuer may appoint such staff as he or she may determine. The Compensation Scheme 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 he or she may determine. 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. Accordingly, applications should include information about the staff which the applicant, if appointed as valuer, would appoint and their remuneration, other conditions of service and any pensions, allowances and gratuities which he or she would propose to pay to such staff.

39. For the avoidance of doubt, for these purposes staff means staff appointed as employees of the valuer, whether on a temporary or permanent basis. If the valuer is a member of a firm, it will not include the use of staff or other resources within that firm. Any charges incurred for the use of such resources will be considered to form part of the valuer's expenses.

Communications with interested parties, the media and the public

40. There are almost 200,000 former holders of shares in Northern Rock, ranging from individuals who held a small number of shares to holders of substantial shareholdings in the company. There is likely to be interest from former shareholders, other persons whose rights have been affected by the Transfer Order, the media and possibly members of the public, in the valuation exercise, including the procedure and the assessment of any compensation payable.

41. In discharging the function of independent valuer it will be necessary to communicate with former shareholders, the Treasury and other parties. This may include general communications as to the way in which the valuation process is to be managed, regular progress reports and responding to individual queries. The independent valuer will need to judge how to use different modes of communication (eg, mass mailings, web site, phone hot line, written or TV media) to discharge his or her functions effectively.
42. Necessary communications will also include communication of the assessment of any compensation payable by way of assessment notices (and, if relevant, revised assessment notices) in accordance with paragraph 11 (and, if relevant, paragraph 12) of the Compensation Scheme.
43. Northern Rock's registrars, Capita Registrars, provide a range of practical administrative services to the company which could, if the valuer wishes, also be made available to the valuer to enable effective communication with former shareholders and possibly also with other affected parties. Further information about the assistance which Capita Registrars may be able to provide is contained at Annex 1.
44. Applications for appointment should include an explanation of the way in which it is proposed to manage communications, including:
- (A) Any proposals for setting up a dedicated website for the purpose of such communications; and
 - (B) Any proposals for utilising the services offered by Capita Registrars, or other identified third party entity, for the purpose of communicating with affected parties.

Fitness for appointment

45. Applications for appointment as valuer should also include confirmation that:
- (a) you have no criminal convictions;
 - (b) you have not been made bankrupt and do not have any outstanding County Court Judgements against you;
 - (c) you have fully complied with all applicable tax laws and regulations and have no outstanding tax liabilities in the United Kingdom or in any other jurisdiction;
 - (d) no claim is being asserted and no litigation, arbitration or administrative proceeding is presently in progress or, to the best of your knowledge and belief, pending or threatened against you which will or might have a material adverse effect on your ability to perform your functions as valuer;

- (e) you have no reason to suppose that you will be unable to complete the appointment (for example due to health or proposed retirement);
- (f) you have no reason to suppose that personal connections or other personal information might be misconstrued so as to undermine your ability to discharge your functions as independent valuer.

Relevant professional memberships

46. Although membership of a particular professional body is not an essential requirement, applications for appointment should include information about the applicant's membership of any professional body which may be relevant to the appointment and confirmation that if appointed you will act in accordance with any relevant rules of conduct or code of ethics issued by any such professional body.

Insurance

47. Applications for appointment as valuer should include confirmation that the applicant has, or will obtain, an appropriate level of professional indemnity insurance to carry out the appointment, if appointed.

Additional powers

48. Should you identify in your application any additional powers that you believe would assist in ensuring a fair and effective procedure, we will consider them.

E. Selection process

49. The selection process will have two stages: shortlisting and presentation. The valuer will be appointed on the basis of the information contained in his or her application and the presentation that shortlisted candidates will be asked to make.
50. Applicants for appointment as valuer are required to send to HM Treasury (valuer.enquiries@hm-treasury.gov.uk) an application containing the information set out in Section D, and any other information which may be relevant to the consideration of the application for appointment, no later than 4th July.
51. A panel, which will be chaired by the Chief Executive of the Institute of Chartered Accountants of England and Wales, will produce a shortlist from the applications. Shortlisted applicants will be invited to present their case to the panel, including how they meet the criteria in Section C, in person, with their proposed most senior assistants.
52. The panel will make recommendations to Treasury Ministers who will make the final decision as to the appointment.

F. Additional information

Terms of appointment

53. Draft terms of appointment of the valuer are attached at Annex 2.

54. It is intended that this invitation, the application of the successful applicant and the valuer's terms of appointment should be published on the valuer's website.

Freedom of information

55. The Treasury may, acting in accordance with the Department of Constitutional Affairs' Code of Practice on the Discharge of Functions of Public Authorities under Part I of the FOIA (the "Code"), be obliged under the FOIA to disclose information concerning you or your terms of appointment:

(a) in certain circumstances without consulting you, or

(b) following consultation with you and having taken your views into account,

provided always that where sub-paragraph (a) applies the Treasury shall, in accordance with the recommendations of the Code, draw this to your attention prior to any disclosure.

"FOIA" means the Freedom of Information Act 2000 and any subordinate legislation made under the Act from time to time together with any guidance and/or codes of practice issued by the Information Commissioner or relevant government department in relation to such legislation.

Requests for further information

56. Any questions seeking clarification of any aspects of this invitation to apply should be emailed to valuer.enquiries@hm-treasury.gov.uk by no later than 25th June. All such questions, and the answers given, or a summary of this information, will be published on the Treasury web site, for the benefit of other potential applicants.

5 June 2008

Annex 1 Capita Registrars

Capita Registrars have been the Registrar for Northern Rock since 2004. They have managed the shareholder register on behalf of the Company. As well as maintaining the shareholder details and recording any changes to details or ownership, this has involved providing the data for the Annual Report/AGM mailing each year together with the data required to complete the two dividend mailings per year.

It is envisaged that Capita could manage, at the company's cost, the administration of written communications with former company members and other interested parties. Capita could provide in particular the following services:

- Retain the register of shareholders as it stood immediately prior to the transfer of shares to the Treasury Solicitor
- Keep the register of shareholders list up to date for any mailing requirements, for example, changes of address
- Retain a record of all share plans registers
- Maintain a list of members of the relevant share plans
- Provide a helpline facility and contact point for shareholders and members of the relevant share plans

For further information about Capita Registrars and the services they offer please contact:

Phil Kershaw
Associate Director, Client Services
Tel – 01484 600956
Email – pkershaw@capitaregistrars.com

Annex 2 Draft terms of appointment

Basis of appointment

Your appointment as independent valuer is made on the basis of the information and confirmations provided by you in your written application, a copy of which is attached as Annex 1 to this letter.

Duties

You are required to discharge the functions of independent valuer in accordance with the terms of the Compensation Scheme and the provisions of Part 9 of the Financial Services and Markets Act 2000 and the Financial Services and Markets Tribunal Rules 2001 (both as modified by the Compensation Scheme). You will be expected to act impartially, independently and fairly in the discharge of your functions as independent valuer at all times.

Period of appointment

Your appointment will commence on [date] and, subject to paragraph xx below, will continue until you have issued the last assessment notice under paragraph 11 of the Compensation Scheme and all challenges to the assessment notices, whether by the revised assessment notice procedure under paragraph 12 of the Compensation Scheme, or referral to the Tribunal under paragraph 13 of the Compensation Scheme or otherwise have been finally disposed of, unconditionally withdrawn or the time limit for making any such challenges has expired, whichever is the later.

Remuneration and reimbursement of expenses

We will pay you an amount of £x (excluding VAT) by way of remuneration in respect of all work undertaken, and reimbursement of all expenses incurred, during the period from the date of your appointment until you have issued your last assessment notice in accordance with paragraph 11 of the Compensation Scheme. In this letter this amount is referred to as the “assessment amount” and the period in question as the “assessment period”.

The assessment amount will be paid at the stages and in the amounts set out in Annex 2 to this letter.

The assessment amount has been agreed on the basis of the assumptions set out in your application for appointment. If those assumptions are not met in practice, or other circumstances arise which could not have been reasonably foreseen, then the assessment amount may be varied to take account of any resulting additional work undertaken by you or reasonable expenses incurred. We will appoint an independent third party to assess whether a variation is justified and, if so, the amount of any further payment.

Remuneration for work required to be undertaken, and reimbursement for expenses reasonably incurred, additional to the work undertaken and expenses incurred during the assessment period will be made on the following basis:

(i) We will appoint an independent third party to confirm that such remuneration has been properly incurred in the discharge of your duties as valuer. Remuneration will be paid on the basis of the following hourly [or daily] rates:

(ii) You may invoice us for any expenses reasonably incurred by you in undertaking the role of independent valuer after the expiry of the assessment period on a monthly basis. We will appoint an independent third party to confirm that such expenses have been reasonably incurred in the discharge of your duties as valuer.

Termination and vacation of office

We may terminate your appointment by notice in writing with immediate effect on the ground of incapacity or serious misbehaviour. If your appointment is terminated or vacated (howsoever arising) you must provide (free of charge) such assistance as may reasonably be requested by any person appointed to take your place as independent valuer under the Compensation Scheme to facilitate an effective and timely handover of all work then in progress. If you vacate office other than in circumstances outside your control you will reimburse the Treasury such amount as is reasonably required to provide for any additional costs arising out of the change of valuer. For the avoidance of doubt, your moving to another firm, the identity of which, by reason of its involvement with Northern Rock or otherwise, prevents your continuing as valuer, will not be treated as circumstances outside your control.