

NORTHERN ROCK SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

Introduction

- 1 This framework document (the "**Framework Document**"), as drawn up by Northern Rock plc (the "**Company**") and its shareholder, Her Majesty's Treasury (the "**Shareholder**"), 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 Northern Rock and the Shareholder share the common objective of having a working relationship which achieves the objectives of Northern Rock and the Tripartite Authorities (comprising the Shareholder, the Bank of England and the Financial Services Authority) and in which:
- the respective roles of Northern Rock and the Shareholder are clearly defined;
 - Northern Rock 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 Northern Rock 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 light of the Tripartite Authorities' stated objectives:

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

- 3 The Board is responsible for developing and recommending its strategic and funding plan (the "**Plan**") to deliver the objectives of the Tripartite Authorities referred to in the paragraph above with the aim of public ownership being temporary.

Government as shareholder

- 4 The basic relationship between Northern Rock and the Shareholder operates according to the following principles under which the Shareholder:
- appoints the Chairman of the Board and appoints two Non-Executive Directors in consultation with the Chairman;
 - must give its consent for the appointment of other members of the Board proposed to be appointed by the Nominations Committee and agrees the terms on which the Directors are appointed and incentivised;
 - determines the high level objectives that the Plan is designed to achieve and agrees the Plan with the Board;
 - must agree any subsequent updates to the 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 Plan;
- gives the Board the freedom to take the action necessary to deliver the Plan;
- monitors the Company's performance to satisfy itself that the 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

5 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 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:

- Audit Committee
- Risk Committee
- Remuneration Committee
- Nominations Committee

Board appointments

6 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 Plan;
- two Non-Executive Directors nominated by the Shareholder (the “**Shareholder Directors**”) will be appointed to the Board¹. The Company acknowledges that the Shareholder Directors 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;
- the Chairman will discuss with the Nominated Official any impending changes to Board membership;
- the Nominated Official will meet the Chair of the Nomination 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

¹ Philip Remnant and Tom Scholar were appointed as Shareholder Directors on 22 February 2008.

- the Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chairman and Board.

Strategic Plan

- 7 The Plan will be updated as required and 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 any proposed changes in strategy to be understood and agreed.
- 8 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.

Delivering the Plan – incentivisation

- 9 The Shareholder's approval will be required for remuneration packages and any incentivisation arrangements for Directors. 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 Plan and that incentives for Directors are aligned with the stated objectives of the Tripartite Authorities.
- 10 The Shareholder requires any incentive arrangements for Executive Directors to be tied closely to performance as measured by the achievement of 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 responsible for a failure to deliver the Plan, or for other serious failure.
- 11 The Remuneration Committee will recommend any proposals for the Shareholder's consent based on performance made against the Plan, and appropriate market benchmarks.
- 12 The Chair of the Remuneration Committee will discuss proposals at an early stage with the Shareholder in order to input the Shareholder's views into the process.

Delivering the Plan - the Board's freedom to act

- 13 The Shareholder 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, the Shareholder will not interfere in day-to-day operational and commercial matters.
- 14 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' fiduciary responsibilities.

Monitoring Company performance

- 15 The Shareholder will regularly monitor the Company's performance against the Plan by means of the following mechanisms:
 - regular shareholder meetings as the centrepiece of the formal reporting relationship between the Company and the Shareholder. These will be monthly at first, and their frequency will be subject to review. 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 Plan objectives, but each meeting is primarily intended to be weighted towards being a forward-looking and risk-based analysis of Plan progress;

- regular financial and business performance monitoring to assist this process. These will be monthly at first, and their frequency will be subject to review. 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 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 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 reasonable information in relation to the affairs of the Company, including reasonable access to the Company's financial models and personnel, as it may reasonably consider necessary or desirable from time to time; and
- notwithstanding the above, the Shareholder will not have the right to any documents relevant to matters in issue as against itself in any legal proceedings to which it is a party.

16 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 any strategic outcome contemplated by the Plan; and
- any other actions that may have a significant bearing on the delivery of the Plan or prejudice the stated objectives of the Tripartite Authorities.

17 These 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.

18 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

- 19 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.