

# UK Financial Investments Ltd

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## **UK Stewardship Code**

### **About UKFI**

UK Financial Investments (UKFI) was created as part of the UK's response to the financial crisis. UKFI is a Companies Act Company with HM Treasury as its sole shareholder.

UKFI is responsible for managing the Government's shareholdings in The Royal Bank of Scotland Group plc and Lloyds Banking Group plc, and is also responsible for managing the Government's 100 percent shareholdings in Northern Rock (NR) and UK Asset Resolution (UKAR), the holding company of Bradford and Bingley and Northern Rock (Asset Management) (NRAM).

### **UKFI's Ownership Approach**

UKFI's overarching objective is to manage these shareholdings commercially to create and protect value for the taxpayer as shareholder and provider of financial support, with due regard to financial stability and competition, and to devise and execute a strategy for disposing of the Government's investments in an orderly and active way over time.

In managing the Government's investments for value UKFI is an active and engaged shareholder with our actions being guided by two key documents in place between UKFI and HM Treasury.

Firstly, the Shareholder Relationship Framework Document sets out the objectives for UKFI and the framework within which UKFI will pursue them. The Framework Document gives a clear mandate to UKFI to manage the investments commercially with a view to achieving an exit. It also makes clear that UKFI will not intervene in the day-to-day management decisions of the investee companies.

Secondly, the Investment Mandate describes: the scope of UKFI's decision-making responsibilities with respect to its management of the Investments in the Listed Investee Companies; and, the extent to which decision-making requires the prior approval of HM Treasury before being taken or implemented.

Both the Shareholder Relationship Framework Document and the Investment Mandate are available on our website at: <http://www.ukfi.co.uk/publications/>

## Monitoring and Engaging with Investee Companies

UKFI's approach to monitoring and engaging with its investee companies differs slightly between RBS and Lloyds; and, Northern Rock Plc, Northern Rock (Asset Management) and Bradford & Bingley.

For RBS and Lloyds, UKFI's approach respects the interests of other shareholders. As financial institutions with private as well as Government investors, RBS and Lloyds are run by their own independent boards and management teams who have legal and fiduciary responsibilities to all their shareholders. UKFI takes a commercial and active approach to managing these investments, working alongside other investors with an interest in these companies. UKFI's role as an engaged shareholder is therefore to ensure that the banks have sound long-term strategies, and that they are effectively managed and properly governed.

Whilst the Government's Wholly-Owned companies are also run by their boards and management teams, UKFI has some additional involvement in these companies given the Government's 100 percent shareholding. UKFI engages with these companies in a manner more similar to a financial sponsor engaging with wholly-owned portfolio companies. For example, UKFI appoints the Chairman of the Board, is required to approve board nominations and has approval rights over the companies' business plans.

As the body representing the taxpayer's interest in these companies stewardship is of critical importance to the work of UKFI and is at the heart of how we conduct our business – ultimately UKFI's performance as an organisation will be judged on the success of our stewardship and disposals.

UKFI maintains an active and regular dialogue with our investee companies' boards and senior management. Should we have concerns, for instance about strategy, operational performance, acquisitions or disposals, we will have dialogue with the company.

## The UK Corporate Governance Code

The preface to the UK Stewardship Code states that it is complementary to the UK Corporate Governance Code for listed companies. One of the central features of both the Corporate Governance Code and the UK Stewardship Code is that they operate on a "comply or explain" basis.

UKFI recognises that the Corporate Governance Code is intended to set out best practice rather than operate as formulistic rules. While we generally expect to see compliance with the principles of the Corporate Governance Code by our investee companies, we will consider explanations for why a firm has chosen not to comply. Any decision to depart from the

principles of the Corporate Governance Code must be accompanied by a clear and reasoned explanation and UKFI will challenge a decision where we feel a suitable explanation has not been given.

### Collective Action with Other Investors

In respect of RBS and Lloyds, which are financial institutions with private as well as Government investors, UKFI takes a commercial and active approach to managing these investments, working alongside other investors with an interest in these companies.

Since UKFI's inception in November 2008 we have held over 100 meetings with other institutional shareholders. Our aims in these meetings include explaining our remit and the arm's-length nature of our relationship with Government, and hearing other investors' views, to ensure that investors are clear that the banks are being run on a commercial basis, and so that we are aware of and responsive to the wider shareholder consensus on our investee banks.

UKFI is committed to continuing the policy of engagement with other shareholders around major business issues and in the deliberation on matters brought to vote at the banks' Annual General Meetings and all other shareholder meetings.

### Voting, Voting Disclosure and Reporting

UKFI has a clear policy on both voting and disclosure. UKFI will vote all our voting shares wherever eligible to do so (i.e. on all resolutions other than where the Government has been a related party). We will inform the company in advance of our intentions and rationale and we disclose publicly how we have voted. Disclosure of our votes is made on our website as a press release and can be found at <http://www.ukfi.co.uk/press-releases/>.

The decision on how to vote shares is made by the Board of UKFI. UKFI does not make use of a voting advisory service – any recommendations on voting made to the UKFI Board come from analysis conducted by UKFI staff members.

UKFI is committed to being accountable and transparent. UKFI's annual report and accounts contains information on the manner in which we have discharged our stewardship role. UKFI representatives attend a number of Parliamentary Committee hearings as well as holding regular meetings with our shareholder, HM Treasury, as set out in our Framework Document and Investment Mandate. UKFI also responds to a high volume of requests under the Freedom of Information Act 2000 and to correspondence from members of the public, MPs, and other stakeholders.

## Conflicts of Interest

UKFI takes the issue of conflicts of interests very seriously. UKFI's Shareholder Relationship Framework Document sets out that UKFI should adopt appropriate procedures for managing conflicts and inside information.

UKFI has developed a rigorous control framework with respect to governance, compliance and risk procedures. Appropriate account of best practice has been taken; for instance, although UKFI's activities do not require FSA authorisation, the Board has decided that UKFI should adopt policies and procedures that would meet the standard expected of a wholesale-market firm operating in the financial services market.

The UKFI Board has responsibility for maintaining a sound system of internal control that supports UKFI's policies and the achievements of its objectives, whilst safeguarding the public funds and assets for which the Board is collectively responsible.

The Audit and Risk Committee has responsibility for oversight of UKFI's governance, internal control, risk management processes and behaviours. It also has responsibility for agreeing internal and external audit work programmes and overseeing the reports associated with these programmes. The Executive Management Committee provides operational leadership for the risk management process and is accountable to the Board.