

**UK Financial Investments Ltd**

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**AN INTRODUCTION: WHO WE ARE,  
WHAT WE DO, AND THE FRAMEWORK  
DOCUMENT WHICH GOVERNS THE  
RELATIONSHIP BETWEEN UKFI AND  
HM TREASURY**

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# Introduction

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UK Financial Investments Limited (UKFI) was set up on 3 November 2008 to manage the Government's investments in financial institutions including the Royal Bank of Scotland (RBS), Lloyds TSB/Halifax Bank of Scotland (Lloyds Banking Group), Northern Rock and Bradford & Bingley.

This document provides more information on who we are and what we do, and publishes the Framework Document which governs the relationship between UKFI and HM Treasury. We will provide further updates through annual reports, and additional information can be found on our website: [www.ukfi.gov.uk](http://www.ukfi.gov.uk).

# WHO WE ARE

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UKFI is a Companies Act Company (Company no: 6720891), with HM Treasury as its sole shareholder. The company's activities are governed by its Board, which is accountable to the Chancellor of the Exchequer and – through the Chancellor – to Parliament.

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## The UKFI Board

The UKFI Board will take all major, strategic decisions for the company.  
The Board comprises:



**Glen Moreno** – Acting Chairman

Educated at Stanford University and Harvard Law School, Glen Moreno joined Citicorp in 1969. He was head of Citi's German operations in the early 1970s and led the acquisition and integration of its retail branch system in that country. In the mid-70s he headed the restructuring of Citicorp Australia. He was later also responsible for the bank's operations in Southeast Asia and India. In the 1980s he moved to London as senior officer for Europe, joining Citicorp's Policy Committee.

In 1987 he joined Fidelity International as chief executive, recruited to lead its international expansion. In 1991 he retired from executive duties, and has since held several board positions with banks and investment companies including non-executive director roles at REA Group plc and the Prince of Liechtenstein Foundation.

In 2005 Glen was appointed Chairman of Pearson plc, the world's leading educational company, with ownership interests in the Financial Times and The Economist. He is senior independent director of Man Group plc and remains a director of Fidelity International and chairman of its audit committee. He is also a governor of The Ditchley Foundation and a director of the Royal Academy of Dramatic Art.



**John Kingman** – Chief Executive

Prior to his appointment as Chief Executive of UKFI in November 2008, John Kingman was Second Permanent Secretary to the Treasury, where he was responsible for oversight and control of some £600 billion of public spending annually. He led negotiations with RBS, Lloyds TSB and HBOS on their recapitalisation, and on the resolution process for Northern Rock. Earlier Treasury roles have included Managing Director, Finance and Industry – in which capacity he chaired, on the Chancellor's behalf, the tripartite standing committee which oversees the stability of UK financial markets – Director, Enterprise & Growth Unit, and Press Secretary to the Chancellor.

John has also worked on the Lex column of the Financial Times and in the Group Chief Executive's office at BP, and has been a Board Director of the European Investment Bank, a non-executive director of Framstore CFC Ltd, and a Visiting Fellow at the Institute of Political and Economic Governance at Manchester University. John is a member of the Development Trust board of St-Martin-in-the-Fields and the Global Advisory Board of the Centre for Corporate Reputation, Oxford University.



**Peter Gibbs**

Peter Gibbs has a wealth of financial services experience in the Asset Management sector. Having begun his career at Brown Shipley, he joined Bankers Trust in 1985 as a Senior Portfolio Manager. In 1989 he joined Mercury Asset Management (MAM) where he rose to become Head of the International Equities Division. Following the acquisition of MAM by Merrill Lynch he was appointed Co-Head of Equity Assets worldwide. In 2003 he became Chief Investment Officer for Merrill Lynch's Investment Management activities outside the US.

Peter retired from Merrill Lynch at the end of 2005. He currently serves as Non-Executive Chairman of Turquoise the multi-lateral equity trading platform, Non-Executive Director of Evolution Group plc the financial services group, Non-Executive Director of Impax Group plc the environmental asset manager and as a Director of Merrill Lynch (UK) Pension Plan Trustees Ltd. Between June 2006 and August 2007 he was a Non-Executive Director of Bridgewell Group plc.



**Michael Kirkwood**

Michael Kirkwood was Citi's Chief Country Officer for the United Kingdom and Chairman of Corporate Banking until the end of 2008. He was recently appointed as Vice Chairman of the Advisory Board in the UK of PriceWaterhouseCoopers. He has previously held management positions with Citi in New York, Switzerland and Scandinavia as well as the UK. Prior to joining Citi, Michael worked in Singapore for a number of years with Ralli International (subsequently part of the Bowater Group), as a Director of several group companies and latterly as founding Chief Executive of Temenggong Merchant Bankers Ltd. He has also worked for Ansbacher & Co and The Hongkong and Shanghai Banking Corporation.

In addition to his role with Citi, Michael served as a Non-Executive Director of Kidde plc from 2001 to 2005, was Vice Chairman of the British Bankers' Association, sat on the CBI's Financial Services Council and remains a member of the Advisory Board of the Association of Corporate Treasurers. He has held a variety of positions in trade bodies and the City of London, and is currently Chairman of Habitat for Humanity GB. He was appointed a Companion of the Order of St. Michael & St. George (CMG) in the Queen's 2003 Birthday Honours.



**Philip Remnant**

Philip Remnant is Chairman of the Shareholder Executive, which was formed in 2003 to improve the Government's performance as a shareholder in government-owned businesses. He was appointed to the Northern Rock Board as a Non-Executive Director in February 2008, and is a Senior Adviser of Credit Suisse's investment banking division in Europe.

Previously, Philip was a Vice Chairman of Credit Suisse First Boston in Europe and was Director General of the Takeover Panel for two years between 2001 and 2003. He formerly held senior investment banking positions with BZW and Kleinwort Benson. He is a qualified chartered accountant and has an MA in Law from New College, Oxford.



**Lucinda Riches**

Lucinda Riches is a senior equity capital markets banker with extensive experience in privatisations. After a brief spell at Chase Manhattan Bank, Lucinda joined SG Warburg in 1986 where she pursued a career spanning 21 years in SG Warburg and its successor firms, ultimately UBS. She became involved in its equity capital markets business in 1988. During the late 1980s and 1990s she worked on a large number of IPOs and equity sales for a range of clients, including privatisations for a number of governments around the world including Deutsche Post, Telia, Statoil and Telstra.

Lucinda became European Head of Equity Capital Markets in 1995 and Global Head of Equity Capital Markets in 1999. In 2001 she joined the board of UBS Investment Bank, with personal responsibility for the equity capital markets strategy within the investment bank. She chose to step down from her UBS role in 2007. Lucinda has an MA in Philosophy, Politics and Economics from Brasenose College, Oxford and an MA in Political Science from the University of Pennsylvania.



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**Louise Tulett**

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Louise is HM Treasury's Group Director of Finance, Procurement and Operations. She joined HM Treasury in June 2000 following a 24-year career in public sector finance in local government and the Health Service. She is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

Louise's first role at the Treasury was to introduce resource accounts to the Treasury itself, in line with the Central Treasury Initiative led by Sir Andrew Likierman for resource accounting and budgeting (RAB) across government departments. Following a short spell as department management accountant, Louise was promoted to Team Leader for Finance and Procurement in March 2004 and took responsibility for the merger of OGC/HMT Finance and Procurement function within Group Shared Services in August 2006. She was promoted to Group Director of Finance, Procurement and Operations in June 2007.

## The UKFI Team

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We are a small company, with the number of full-time employees including the Chief Executive currently expected to be around 15 at full staffing.

In order to allow the company to manage the Government's investments in a commercial manner, most of the 15 posts will be filled by candidates with directly relevant expertise from the private sector and UKFI will not be part of the Civil Service.

Senior members of the team who have already been appointed include:



**John Crompton** – Head of Market Investments

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John joined UKFI in December 2008 and is responsible for the management of the Government's shareholdings in those banks which subscribed to the recapitalisation fund and which retain a stock-market listing. He will also be responsible for devising and executing a strategy for selling those stakes when appropriate.

John has more than 20 years' experience of capital markets, most recently as Merrill Lynch's Head of Equity Capital Markets for EMEA. He joined Merrill Lynch from Morgan Stanley where he had worked in a variety of roles since 1986 including Co-head of European Equity Capital Markets, Head of Non-Japan Asia

Equity Capital Markets and various positions within US Equity Capital Markets. John also spent nearly two years on secondment to HM Treasury as its senior corporate finance adviser from 2005-2007.



**Sam Woods** – Chief Operating Officer

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Sam is responsible for all aspects of UKFI's operations and policy.

Sam joined UKFI in November 2008. He has previously held a number of roles at HM Treasury, including Team Leader of the Value for Money Team within Treasury's public spending directorate and Private Secretary to one of the Treasury's ministers. He also spent two years on secondment to the New Zealand Treasury as a Team Leader managing the Government's ownership interest in a number of state-owned enterprises.

Before joining the Treasury, Sam worked at Diageo on international strategy and as Finance Director of its UK subsidiary Translucis Limited, and at McKinsey and Company where he worked mainly in financial services and M&A. In 1998 he spent a year at INSEAD gaining an MBA.



**Tim Sykes** – Senior Banks Analyst

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Tim leads UKFI's analysis of its listed investments.

Up until joining UKFI in January 2009 Tim worked as UK Banks Analyst at Execution Limited. He has more than 18 years' industry experience, including as Managing Director and Head of UK and Irish Banks equity research at UBS, and as Co-head of European banks' equity research at Credit Suisse First Boston. From 2003 to 2007 he held various management positions at Standard Chartered Bank, most recently serving as deputy Group Treasurer.

# WHAT WE DO

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Much of our focus will be on formulating and implementing a strategy for selling down our holdings over time in an orderly way, consistent with the Government's firm view that it has no wish to be a permanent investor in UK financial institutions.

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## Our Objective

UKFI has been set up to manage the Government's investments in financial institutions

These investments currently comprise:

- holdings in RBS comprising £5 billion in preference shares and 57.9% of the company's ordinary shares, with an agreement to refinance the preference shares with ordinary shares which could take the Government's stake up to 70%;
- holdings in the Lloyds Banking Group comprising £4 billion in preference shares and 43.4% of the company's ordinary shares; and
- in due course, 100% ownership of Northern Rock and Bradford & Bingley.

Our goal as we manage these investments, as set out in the Framework Document (see Annex A), is to develop and execute an investment strategy for disposing of the Investments in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition. This objective includes:

- consistent with HM Treasury's stated aim that it should not be a permanent investor in UK financial institutions, maximising sustainable value for the taxpayer, taking account of risk;
- maintaining financial stability by having due regard to the impact of its value realisation decisions; and
- promoting competition in a way that is consistent with a UK financial services industry that operates to the benefit of consumers and respects the commercial decisions of the financial institutions.

In pursuing this goal we will operate like any other active, engaged shareholder to protect and create value, operating on a commercial basis and at arm's length from Government.

In order to ensure we meet this standard we will follow in full the Institutional Shareholders' Committee's Statement of Principles. This includes:

- **Monitoring performance.** We will maintain an active and regular dialogue with our investee companies' boards and senior management. We will seek to satisfy ourselves that the boards are operating effectively, and that the companies' strategies protect and enhance shareholder value.
- **Intervening when necessary.** Should we have concerns, for instance about strategy, operational performance or acquisitions/disposals, we will intervene with the board.
- **Voting.** We will vote all our shares wherever practicable to do so; we will inform the company in advance of our intentions and rationale; and we will disclose how we have voted.
- **Evaluating and reporting.** We will provide regular updates to our client – the Treasury – on the performance of our investments and the effectiveness of our engagement with investee companies.

Much of our focus will be on formulating and implementing a strategy for selling down our holdings over time in an orderly way, consistent with the Government's firm view that it has no wish to be a permanent investor in UK financial institutions.

We will also engage robustly with banks' boards and management, holding both strategy and financial performance to account, and taking a strong interest in getting the incentives structures right on the board and beyond – accounting properly for risk and avoiding inefficient rewards for failure.

We will also need to understand the views of and, where appropriate, consult with other investors.

Although we will engage actively as a shareholder, we will respect the principal responsibility which directors – not shareholders – have for deciding their companies' strategies. In doing this we expect directors to take account of our views, within the overall context set by the Companies Act that directors have a duty to promote the success of the company for the benefit of its shareholders as a whole, including consideration of the need to act fairly between those shareholders. We will not cut across the fundamental legal duty of boards to manage their companies in the interests of all their shareholders.

As a condition of the government recapitalisation of RBS and the Lloyds Banking Group, we have the right to agree with boards the appointment of new independent non-executive directors – three in the case of RBS, two in the case of the Lloyds Banking Group. Where we are involved in the appointment of directors, we will work with nomination committees to ensure that they are of the calibre, toughness and experience needed. They will be appointed with our agreement but will not (and, legally, cannot) be our representatives and will not report directly to us. We will expect, and will need to be assured, that boards know their business and their duties, and apply high standards of governance and control.

# Framework Document

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The Framework Document between UKFI and the Treasury is included as Annex A.

This is the founding document of the company and will govern all our activities. It sets the key parameters for how we will conduct our business, including:

- a clear mandate for UKFI to manage the investments commercially, and with a view to achieving an exit;
- a clear distinction between: commercial decisions, including all the normal rights of a shareholder, which are for UKFI to take within the context of a high-level Investment Mandate; and policy decisions, which are for Ministers;
- a requirement that UKFI will not intervene in the day-to-day management decisions of its investee companies, and that the companies will retain their own independent boards, which will manage the banks and determine their strategy; and
- robust institutional arrangements for keeping UKFI at arm's-length from Government, centred on the creation of a heavyweight UKFI board which will take all major decisions relating to UKFI's business and its management of the investments.

# ANNEX A

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## UK Financial Investments Limited: Shareholder Relationship Framework Document

## 1. INTRODUCTION

This framework document (“Framework Document”) has been drawn up by UK Financial Investments Limited (the “Company”) and its shareholder, HM Treasury. It sets out the objectives for the Company and the framework within which the Company will pursue them.

## 2. ACTIVITIES OF THE COMPANY

- 2.1 The Company will manage HM Treasury’s shareholdings in The Royal Bank of Scotland Group plc (“RBS”) and Lloyds Banking Group plc (“Lloyds”). HM Treasury’s shareholdings in RBS and Lloyds are held by the Treasury Solicitor as nominee for HM Treasury.
- 2.2 The Company will also manage HM Treasury’s shareholdings in Northern Rock plc (“NR”) and Bradford & Bingley plc (“B&B”) once European Commission approval has been obtained for the relevant business plans (the “NR and B&B Plans”). The shareholdings of HM Treasury in NR and B&B are held by the Treasury Solicitor as nominee for HM Treasury. It is envisaged the Company will also manage the loan and guarantor arrangements with NR and B&B.
- 2.3 It is noted that some provisions of this Framework Document may need to be supplemented or amended to address the particular issues and objectives relating to NR and B&B, including those arising out of the NR and B&B Plans.
- 2.4 If HM Treasury (whether directly, through the Treasury Solicitor as nominee for HM Treasury or otherwise) acquires further holdings of securities (or acquires assets) of the above financial institutions, or other financial institutions, the Company will, following their acquisition by HM Treasury and if so requested by HM Treasury, manage those holdings or assets.
- 2.5 In this Framework Document:
- (A) the shares and other securities managed by the Company are referred to as the “Investments”;
  - (B) the financial institutions in which such Investments are held are referred to as the “Investee Companies”;
  - (C) the Investments in financial institutions the shares of which remain admitted to the Official List and admitted to trading on a recognised investment exchange are referred to as the “Listed Investee Companies”; and
  - (D) the Investments which constitute wholly-owned subsidiaries of HM Treasury are referred to as the “Wholly-Owned Investee Companies”.
- 2.6 The Company will not, without the consent of HM Treasury, undertake any activity other than the activities envisaged by this Framework Document and activities incidental to them. As such, HM Treasury (and, where relevant, the other Tripartite Authorities) shall remain responsible for all other issues which are not, by virtue of this Framework Document, the responsibility of the Company, whether in relation to the Investee Companies, the Investments, the operation of the recapitalisation fund or otherwise.
- 2.7 The activities, roles and responsibilities of the Company as described in this Section 2 and the remainder of this Framework Document shall be conducted with propriety and otherwise in compliance with the publication entitled “Managing Public Money” issued by HM Treasury in October 2007 (as amended, updated or replaced from time to time).

## 3. OVERARCHING OBJECTIVE

The Company should, in compliance with the Investment Mandate described in Section 4, develop and execute an investment strategy for disposing of the Investments in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition. This objective includes:

- (A) consistent with HM Treasury’s stated aim that it should not be a permanent investor in UK financial institutions, maximising sustainable value for the taxpayer; taking account of risk;
- (B) maintaining financial stability by having due regard to the impact of its value realisation decisions; and

- (C) promoting competition in a way that is consistent with a UK financial services industry that operates to the benefit of consumers and respects the commercial decisions of the financial institutions.

The overarching objective described in the foregoing paragraphs of this Section 3 is referred to in the remainder of this Framework Document as the “Overarching Objective”.

#### 4. THE INVESTMENT MANDATE

- 4.1 HM Treasury will prepare an investment mandate which the Company is to comply with in respect of the management of the Investments and otherwise pursuing the objectives set out in this Framework Document. This document, as established and approved by HM Treasury, and as amended, updated or replaced from time to time, is referred to in this Framework Document as the “Investment Mandate”.
- 4.2 The board of directors of the Company (the “Board”) will review and comment on, and consult with HM Treasury as regards, the proposed Investment Mandate.
- 4.3 Prior to establishment of the initial Investment Mandate, the implementation of any decisions in respect of the Investments (including value realisation decisions) shall be subject to the prior consent of HM Treasury. After establishment of the initial Investment Mandate the implementation of value-realisation decisions (together with the other actions and decisions described in paragraph 9.25) shall be subject to the prior consent of HM Treasury.
- 4.4 The Company will comply with the Investment Mandate and take account of:
  - (A) the Overarching Objective;
  - (B) the need to ensure that, in order to meet the Overarching Objective, decisions in respect of the Investments will be taken in respect of each Investee Company individually rather than in respect of the portfolio of Investments which the Company is managing from time to time;
  - (C) the terms of the agreements and commitments entered into by HM Treasury with the Investee Companies and others relating to the Investments, as notified by HM Treasury to the Company;
  - (D) the conditions attaching to any decisions of the European Commission or national regulatory authorities in relation to state aid or merger control and any commitments given by HM Treasury in that context, as notified by HM Treasury to the Company; and
  - (E) the requirements relating to the boards and management of the Investee Companies, preservation of Investee Company independence and monitoring Investee Company compliance, as set out in Sections 6, 7 and 8.
- 4.5 HM Treasury will authorise the Treasury Solicitor to take instructions from the Company in relation to proxy forms, authorisations and other documents which need to be signed in order to give effect to the decisions made by the Company in compliance with this Framework Document and the Investment Mandate in relation to the Investments, including decisions as to voting.
- 4.6 The Company will be free to manage the investments and effect its investment strategy in its discretion in accordance with the Investment Mandate determined by the Treasury.
- 4.7 Neither HM Treasury nor the Company envisage that the Investment Mandate will, given its commercial sensitivity, be published.
- 4.8 HM Treasury will ensure that the Investment Mandate is consistent with this Framework Document, including Section 3 (Overarching Objective) and paragraph 7.1.

## 5. BUSINESS PLAN

- 5.1 The Board will, by no later than the end of February 2009, develop and recommend to HM Treasury a budget and funding plan for the Company which is appropriate to ensure the fulfilment by the Company of its role in relation to the Investments, and compliance with the associated obligations, as described in this Framework Document (this document will be subject to the approval of HM Treasury (the document, as so approved, being the “Business Plan”)).
- 5.2 For the avoidance of doubt, the Business Plan and investment strategy referred to in Section 3, shall pertain to the activities of the Company, and not to the business plans or budgets of the Investee Companies. The Business Plan will be prepared on the basis of:
- (A) an initial upfront payment being made to cover set-up costs and other incidental costs and expenses expected to be incurred in order to establish the Company in the manner contemplated by this Framework Document; and
  - (B) a periodical management fee to be paid to the Company as consideration for the performance of its ongoing obligations under this Framework Document in respect of the Investments, with such periodical management fee being representative of the anticipated costs and expenses to be incurred by the Company in effecting its investment strategy and otherwise fulfilling its responsibilities under this Framework Document.
- 5.3 The Business Plan will not allow the Company to incur any borrowings or enter into any similar financial transactions.

## 6. BOARD AND MANAGEMENT OF THE INVESTEE COMPANIES

- 6.1 Consistent with the agreements reached with RBS and Lloyds, the Company will work with the board of directors of each of these financial institutions to strengthen their membership through the appointment of suitably qualified, independent non-executives.
- 6.2 In relation to the Wholly-Owned Investee Companies, the Company will, on behalf of HM Treasury, exercise the rights in relation to the boards of those financial institutions conferred on HM Treasury by its Investments in those Wholly-Owned Investee Companies, including by virtue of the framework documents which apply to them, subject to the provisions of this Framework Document.
- 6.3 The Company will also engage with each Investee Company with respect to board composition more generally, consistent with the principles outlined in Section 7.

## 7. PRESERVATION OF INVESTEE COMPANY INDEPENDENCE

- 7.1 The Company will manage the Investments on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (including with respect to individual lending or remuneration decisions). The Investee Companies will continue to be separate economic units with independent powers of decision and, in particular, will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets).
- 7.2 The nature of the Company's engagement with the Investee Companies will be proportionate to HM Treasury's ownership interest:
- (A) Wholly-Owned Investee Companies: For these financial institutions, the board of the Investee Company will report to the Company, which will actively engage with the Wholly-Owned Investee Company in a manner similar to that in which a financial sponsor would engage with a wholly-owned portfolio company. The Company will, in addition to the rights attaching to the Investments in these companies, exercise all rights and discretions conferred on HM Treasury under the framework documents which apply to these companies, subject to the provisions of this Framework Document.
  - (B) Listed Investee Companies: For these financial institutions, the Company will engage actively with the Investee Company in accordance with best institutional shareholder practice. The Company will (subject to the other provisions of this Framework Document) exercise the rights attaching to HM Treasury's Investments in these companies, including voting rights.

- 7.3 HM Treasury is determined to ensure that the Investments do not lead to a distortion or significant lessening of competition and that the Company adopts appropriate procedures for managing conflicts and inside information. The Company will:
- (A) ensure that there are no cross-directorships between the Listed Investee Companies in relation to the appointments in which it has a specified role or between the Company and Listed Investee Companies;
  - (B) put in place robust barriers which are monitored and adhered to by Company personnel and enforced by the Board at all levels to ensure that commercial information relating to one Investee Company does not leak to, and is not exchanged with, another Investee Company;
  - (C) exercise its rights in relation to each Investee Company individually and will not co-ordinate its actions in relation to Investee Companies in a way that might distort competition between them; and
  - (D) develop, establish and apply policies and procedures to ensure that the Company (and its directors, officers and employees) abide by the Code of Market Conduct, and other rules and guidance laid down by the Financial Services Authority and recognised investment exchanges to which securities of the Investee Companies are admitted to trading (such policies and procedures to cover, in particular, insider dealing and market abuse) (the "Compliance Policies"). In this context, it is envisaged that the Company will normally act as other institutional shareholders would act, using published information in a structured dialogue with key members of the Investee Company's board. In considering whether it is necessary or appropriate for the Company (or any of its directors, offices or employees) to become an "insider" in relation to a Listed Investee Company (for example where it is necessary for the Company to receive price-sensitive information to enable it to perform its responsibilities under this Framework Document), the Company will pay due regard to the objective of implementing the Investment Mandate and manage the situation in accordance with the relevant elements of its Compliance Policies.

## 8. MONITORING INVESTEE COMPANY COMPLIANCE

8.1 The Company will (on behalf of HM Treasury) monitor and work to secure compliance with the following:

- (A) (i) the non-lending conditions attached to the accessing by RBS and Lloyds (including HBOS plc) of the Government's bank recapitalisation fund and any other financial institutions accessing the fund and (ii) the conditions attaching to any decisions of the European Commission or national regulatory authorities in relation to state aid or merger control and any commitments given by HM Treasury in that context, as notified by HM Treasury to the Company (together, the "Recapitalisation Conditions");
- (B) the restructuring plans to be submitted to the European Commission in relation to RBS and Lloyds (including HBOS plc); and
- (C) the NR and B&B Plans.

UKFI will develop a robust assurance regime for monitoring and securing compliance to these conditions, and will regularly discuss its approach with HM Treasury and report on compliance to HM Treasury. This work will include assisting HM Treasury to make appropriate submissions to the European Commission to determine the duration of Recapitalisation Conditions. The determination and establishment of conditions attaching to the access by any Investee Company of any financial support from the Government shall remain the responsibility of Government.

## 9. SHAREHOLDER RELATIONSHIP

### General

9.1 Interactions between the Company and HM Treasury need to be underpinned by resolve on both 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 Company's objectives, with commitments delivered on time and to specification;
- (B) efficient: both 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 pursue its objectives effectively.
- 9.2 The success of the relationship depends on the nature and quality of the relationship between the Board and HM Treasury. 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 and the Chancellor of the Exchequer. The Chairman of the Board will maintain regular contact with the Chancellor of the Exchequer or an official nominated by the Chancellor. Below them, senior individuals within the Company and HM Treasury will be nominated who will have the responsibility to ensure that all contacts between the Company and HM Treasury are conducted at the right level, with the right people and in the right spirit.
- 9.3 The basic relationship between the Company and HM Treasury operates according to principles under which HM Treasury:
- (A) may appoint the Chairman of the Board and two senior Government officials as Directors;
  - (B) has authorisation over the appointment of other members of the Board proposed to be appointed by the Board's Nominations Committee and has authorisation over the terms on which each Director is appointed, remunerated and incentivised;
  - (C) through the establishment of this Framework Document and the Investment Mandate, determines the high level objectives that the Company is designed to achieve;
  - (D) must approve the Business Plan and any subsequent updates or amendments to it;
  - (E) requires that the Board is accountable to it for adhering to the Business Plan, complying with the Investment Mandate and delivering the objectives set out in this Framework Document;
  - (F) gives the Board the normal commercial freedom to take the action necessary to adhere to the Business Plan, comply with the Investment Mandate and fulfil and deliver the objectives set out in this Framework Document;
  - (G) is able to monitor the Company's performance to satisfy itself that the Business Plan is being adhered to, the Investment Mandate is being complied with and the objectives set out in this Framework Document are being delivered and carried out; and
  - (H) must give its consent prior to certain significant actions being taken (as described in paragraph 9.26).

The following paragraphs of this Section 9 describe how these principles are to be put into practice.

### *Principles in practice*

#### **Board structure and governance**

- 9.4 The Company will operate a corporate governance structure that provides a framework for the relationship between the Board and HM Treasury which, so far as practicable and in the light of the other provisions of this Framework Document (and, in the case of the Wholly-Owned Investee Companies, the existing framework documents applying to each of them) or as otherwise may be agreed with HM Treasury, takes appropriate account of best practice for a public sector company.
- 9.5 The Board will constitute the following committees of the Board:
- (A) Audit and Risk Committee;
  - (B) Remuneration Committee; and
  - (C) Nominations Committee.
- 9.6 The Board will notify HM Treasury of the delegated authorities it has granted to the Directors and senior management.

**Board appointments; Senior management**

- 9.7 The composition of the Board is a critical factor for HM Treasury. The aim is to secure an environment in which HM Treasury and the Chairman share a common view about Board composition (including balance of experience and background) and succession. To achieve this, the following will apply:
- (A) the Board will consist of seven Directors, comprising a private sector Chairman, three further non-executive private sector members and a Chief Executive, together with two senior Government officials nominated by HM Treasury (the “Treasury Directors”);
  - (B) the Chief Executive will be the Accounting Officer for the Company;
  - (C) the Chairman will discuss and confirm with HM Treasury Board composition and succession initially, and regularly thereafter, in the light of performance and the requirements of the Investment Mandate, the Business Plan and this Framework Document;
  - (D) the Chairman will discuss with the HM Treasury any impending changes to Board membership;
  - (E) HM Treasury will meet the Chair of the Nominations Committee as necessary to discuss any proposed Board changes; and
  - (F) the Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chairman and Board.
- 9.8 The Board shall:
- (A) appoint to senior investment roles individuals with relevant financial experience, skills and appropriate qualifications, who shall (in addition to any other responsibilities determined by the Company) attend Board discussions relating to the Investments;
  - (B) appoint a professionally qualified financial controller to manage the Company’s accounts and Business Plan, who shall (in addition to any other responsibilities determined by the Company) attend Board discussions relating to the Business Plan and the Company’s financial statements and accounts; and
  - (C) appoint a suitably qualified individual to develop, establish and monitor compliance with the Compliance Policies, who shall (in addition to any other responsibilities determined by the Company) attend Board discussions relating to the Compliance Policies.

**The Investment Mandate**

- 9.9 Representatives of HM Treasury and the Board or other Company representatives will meet from time to time, as agreed, to review the strategic options available in formulating and implementing the Investment Mandate, and in delivering the objectives set out in this Framework Document.
- 9.10 A process of effective dialogue will be established between representatives of HM Treasury and the Board and other Company representatives to ensure that the Company fully understands the objectives set out in the Investment Mandate and its associated responsibilities pursuant to it.

**The Business Plan**

- 9.11 The Business Plan will be subject to review by, and the approval of, HM Treasury.
- 9.12 The Business Plan will cover a period of at least 12 months and will be reviewed by the Board on an annual basis.
- 9.13 The Company will inform HM Treasury of potential changes to the Business Plan that it considers are or may become necessary from time to time. Any proposed updates or amendments to the Budget, whether arising out of the annual review process or otherwise, will be subject to discussion with, and approval by, HM Treasury.

**Remuneration and incentivisation**

- 9.14 HMTreasury expects remuneration arrangements, including any incentivisation packages, to be developed and recommended by the Board's Remuneration Committee for Directors and senior management, and to be in line with the FSA's code. In the case of remuneration arrangements for Directors, the specific proposals for each individual will require approval by HMTreasury.
- 9.15 Prior to the appointment of the Company's non-executive directors and the establishment of the Board's Remuneration Committee, the role referred to in paragraph 9.15 will be fulfilled by the Chairman.
- 9.16 HMTreasury's interest is primarily in ensuring that remuneration levels:
- (A) are sufficient to attract and motivate high calibre individuals to drive the delivery of the activities and objectives described or set out in this Framework Document.
  - (B) are tied closely to performance, as measured by compliance with the Investment Mandate (and implementation of the Company's investment strategy), adherence to the Business Plan and delivery of the objectives in this Framework Document;
  - (C) are aligned with the objectives set out in this Framework Document; and
  - (D) deliver value for money.
- 9.17 In addition, HMTreasury 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 adhere to the Business Plan, comply with the Investment Mandate or for any other serious failure.

**The Board's freedom to act**

- 9.18 HMTreasury is committed to giving the Board the commercial freedom to adhere to the Business Plan, comply with the Investment Mandate and fulfil and deliver the activities and objectives set out in this Framework Document. In that context, and save as provided in this Framework Document, HMTreasury will not interfere in day-to-day operational and commercial matters.
- 9.19 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.

**Monitoring the Company's performance**

- 9.20 HMTreasury will regularly monitor the Company's performance of the activities, and performance against the objectives, set out in this Framework Document, by means of the following mechanisms:
- (A) quarterly shareholder meetings as the centrepiece of the formal reporting relationship between the Company and HMTreasury. The purpose of these meetings between the Chairman of the Company and senior representatives of HMTreasury is to provide a forum to review performance to date of the activities, and against the objectives set out in this Framework Document. Each meeting is primarily intended to be weighted towards being a forward-looking and risk-based analysis of progress against the Business Plan and Investment Mandate, including the Company's investment strategy (where appropriate);
  - (B) the Company will promptly and without delay disclose to HMTreasury any information regarding the Company 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, this Framework Document or the Investment Mandate;
  - (C) in addition to the regular shareholder meetings, meetings between Directors and representatives of HMTreasury to discuss the affairs of the Company at HMTreasury's request; and
  - (D) in addition to the monitoring procedure described above, HMTreasury will be entitled on reasonable notice to such information in relation to the affairs of the Company, as it may consider necessary or desirable from time to time.

- 9.21 The Company will produce quarterly reports to facilitate effective shareholder meetings as referred to above, together with an annual report. The annual report (together with the Company's audited accounts) will be laid before Parliament. The quarterly and annual reports will contain such information as HM Treasury, in consultation with the Company, requires.
- 9.22 The Chairman and Chief Executive of the Company will, if required, attend meetings of relevant Parliamentary committees (including the Public Accounts Committee and the House of Commons Treasury Select Committee), for scrutiny and otherwise to answer questions about the Company.
- 9.23 The Company will:
- (A) appoint the Comptroller and Auditor General to audit its financial statements;
  - (B) permit audit procedures to be carried out by the National Audit Office (with or without the involvement of external professional advisers); and
  - (C) establish an internal audit function which shall be comprised of members of HM Treasury's internal audit team. The internal audit function will report to the Board's Audit and Risk Committee and will consider issues relating to the Company's adherence to the Business Plan, compliance with the Investment Mandate and delivery of the objectives set out in this Framework Document, covering (in particular) matters relating to strategy, performance and risk management.
- 9.24 The accounts to be produced by the Company will comply with any accounts direction issued by HM Treasury regarding the presentation or form of such accounts; and the timing for production of such accounts shall accord with "best practice" applicable to Government Departments and be laid before Parliament.

**Approval rights**

- 9.25 HM Treasury will have approval rights over:
- (A) any variation or waiver of the terms of any agreement between HM Treasury and an Investee Company or the grant of any consent or approval under such an agreement;
  - (B) any variation or waiver of the terms of any framework documents with NR or B&B;
  - (C) any disposals (including redemption prior to scheduled maturity) or acquisitions of Investments, or other strategic transactions, which are not in accordance with the objectives set out in this Framework Document or are not contemplated or permitted by the Investment Mandate;
  - (D) any action which may have a significant bearing on, or prejudice, HM Treasury's position as a creditor or contingent creditor of a Investee Company; and
  - (E) (without prejudice to paragraph 7.1) any other actions that fall outside of the scope of the Investment Mandate and the discretions vested in the Company by virtue of this Framework Document and which may have a significant bearing on or prejudice the delivery of, or compliance with, the activities and objectives set out in this Framework Document.

**Power of Direction**

- 9.26 In view of HM Treasury's broader functions, including its functions in relation to financial stability and financial and economic policy, it may be necessary for HM Treasury to give the Board directions of a general or specific nature from time to time. The Board will comply with such directions or resign. HM Treasury will, in making any such direction, have regard to the Overarching Objective and the requirement to preserve Investee Company independence (as outlined in Section 7).
- 9.27 Such directions will be given in writing and will be promptly published by HM Treasury unless financial stability requires that publication is delayed or withheld.

## **10. CONTINUATION OF THE COMPANY**

- 10.1 The Company will continue in existence in and for so long as is required to carry out the activities envisaged by this Framework Document. Upon completion of such activities, it is envisaged that the Company will be wound up.

## **11. REVISION OF FRAMEWORK DOCUMENT**

- 11.1 This Framework Document may be amended or supplemented from time to time where required by HM Treasury. In particular, it is noted that amendments and supplements may be required: (i) if the activities of the Company described in Section 2 are extended to cover other assets; and (ii) to reflect the NR and B&B Plans.
- 11.2 Any amendments or supplements to this Framework Document resulting from the provisions of this section 11 will be made: (i) having due regard to the need to preserve Investee Company independence (as outlined in Section 7); and (ii) the Overarching Objective, save in each case to the extent that these considerations are inappropriate when reflecting, or need not be taken into account in order to reflect, amendments or supplements arising out of the finalisation of the NR and B&B Plans.

## **12. STATUS OF FRAMEWORK DOCUMENT**

- 12.1 In the event of any conflict or inconsistency, this Framework Document takes precedence over framework documents which are already in place in respect of the Wholly-Owned Investee Companies.
- 12.2 This 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 statutory and other rights and obligations of HM Treasury or the Company.

## UKFI CONTACTS

This document can be found on our website at: [www.ukfi.gov.uk](http://www.ukfi.gov.uk)

**General enquiries should be addressed to:**

Enquiries

UK Financial Investments Limited

1 Horse Guards Road

London

SW1A 2HQ

E-mail: [enquiries@ukfi.gsi.gov.uk](mailto:enquiries@ukfi.gsi.gov.uk)