



UK Government Investments Ltd

Memorandum of Understanding with HM Treasury relating to the government's shareholdings in Natwest Group plc and UK Asset Resolution Ltd

October 2021



UK Government
Investments

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Part A – General

1. Introduction and Purpose

- 1.1. This memorandum of understanding (“**MoU**”) has been prepared between HM Treasury (“**HMT**”) and UK Government Investments Limited (“**UKGI**”) and sets out the relationship between HMT and UKGI in relation to the services UKGI provides to HMT with respect to NatWest Group plc (“**NatWest**”) and UK Asset Resolution Limited (“**UKAR**”).
- 1.2. In this MoU:
 - a. NatWest and UKAR are together referred to as "**the Assets**"; and
 - b. the shares and other securities HMT holds in NatWest and UKAR which are managed by UKGI are referred to as the "**Investments**".
- 1.3. The MoU is made in accordance with paragraph 5.10 of the framework document drawn up by UKGI and HMT, which sets out the objectives for UKGI and the framework within which UKGI will pursue them (the "**UKGI Framework Document**").
- 1.4. The MoU replaces the version that was entered into on 31 March 2018 and is effective from 30 October 2021. It will continue in force until such time as it is amended, supplemented or replaced by HMT.
- 1.5. The purpose of this MoU is to ensure there is a clear and common understanding between UKGI and HMT of the basis on which they will work together on matters pertaining to the Assets, including their respective roles and responsibilities and issues relating to accountability.
- 1.6. The MoU sets out (i) the scope of UKGI’s responsibilities with respect to its management of the Investments; (ii) the extent to which decision-making requires prior approval of HMT before being taken or implemented; and (iii) the anticipated dialogue between UKGI and HMT in relation to UKGI’s responsibilities in relation to the Assets.
- 1.7. UKGI is to comply with this MoU, consistent with pursuing the Objectives set out in the UKGI Framework Document.

- 1.8. HMT and UKGI are committed to delivering the terms of this MoU. Notwithstanding this, the MoU is not intended to create legal obligations or to be legally binding.
- 1.9. In the event of any conflict or inconsistency, the UKGI Framework Document takes precedence over this MoU.
- 1.10. Unless otherwise stated: (i) capitalised expressions used in this MoU have the meanings given to them in the UKGI Framework Document; and (ii) references to “Sections”, “Parts” and “paragraphs” refer to the Sections, Parts and paragraphs of this MoU.

2. Background

- 2.1. UKGI is a limited company, wholly owned by HMT, which provides independent corporate finance and governance advice to government departments. In the context of the Assets referred to in paragraph 1.2 above, UKGI will provide independent advice to HMT and its ministers to deliver the Objectives set out in the UKGI Framework Document, in particular, the disposal of those assets. UKGI also manages HMT's interests in the Assets on behalf of HMT. Any direct engagement with the Assets referred to in this MoU will formally be as an agent of HMT.
- 2.2. UKGI will provide its advice in a manner consistent with the Civil Service's core values of integrity, honesty, objectivity, and impartiality.
- 2.3. Pursuant to paragraph 5.10 of the UKGI Framework Agreement, to facilitate UKGI in managing its work and resources, and to enable the constructive engagement of UKGI with the departments it advises, MoUs will be put in place for the benefit of UKGI and the departments it works with.
- 2.4. This MoU is not intended to affect the customer relationship between HMT and UKGI in relation to any other investments.

3. UKGI's approach to managing the Investments

- 3.1. In managing the Investments, UKGI will (on behalf of HMT) follow best institutional shareholder practice. This includes compliance with: (i) the Financial Reporting Council's Stewardship Code (“**the Code**”); (ii) any relevant documents published by UKGI in response to the stated requirements of the Code or other institutional standards; and (iii) any relevant UKGI portfolio governance principles that may be adopted from time to time.

4. Engagement between UKGI and HMT in relation to the Assets

- 4.1. Representatives of the Financial Stability Group within HMT and representatives from UKGI will meet from time to time to review the strategic options available in implementing this MoU and in delivering the objectives set out in the UKGI Framework Document and the UKGI Budget in relation to the Assets.

- 4.2. This engagement is intended to be in addition to the quarterly shareholder meetings referred to in the UKGI Framework Document (at paragraph 5.5) between representatives of HMT and UKGI to discuss UKGI's overall activities and performance against its Objectives.
- 4.3. The meetings referred to at 4.1 are to be held quarterly and will focus on UKGI consulting on and engaging with the Financial Stability Group within HMT on actions and decisions taken, or proposed to be taken, in connection with UKGI's responsibilities under this MoU and pertaining to the Assets. These quarterly discussions will cover issues including but not limited to:
- a. market conditions and how they are affecting NatWest;
 - b. UKGI's current investment strategy in respect of NatWest;
 - c. opportunities, or potential opportunities, to realise value with respect to NatWest; and
 - d. matters relating to the relationship between UKGI and UKAR in the context of UKAR's role in managing any liabilities and other strategic matters arising out of HMT's former investment in Bradford & Bingley plc and NRAM (the "**Former UKAR Subsidiaries**");
 - e. the extent to which NatWest and UKAR are complying with any conditions attaching to any decisions of the European Commission or national regulatory authorities in relation to State aid or merger control with respect to any commitments given by HMT in that context (the "**Company Conditions**");
 - f. actions and decisions which UKGI has taken, or is proposing to take, to give effect to the obligations under the UKGI Framework Document and this MoU which pertain to the Assets; and
 - g. staffing arrangements within UKGI that relate to UKGI's activities to give effect to the obligations under the UKGI Framework Document and this MoU which pertain to the Assets, including the appointment of the UKGI Financial Institutions Group Director and senior officials.
- 4.4. In addition to these quarterly meetings, UKGI will keep HMT informed as to the status, design, development and execution of any transaction involving NatWest, as well as any matters relating to UKAR's management of any liabilities and other strategic matters arising out of HMT's former investment in the Former UKAR Subsidiaries.

5. Accountabilities, finance, and working relationships

- 5.1. HMT and UKGI agree to work together as one team to ensure the delivery of the objectives set out in this MoU. The parties shall endeavour to make the working arrangements function as efficiently, openly and collaboratively as possible.
- 5.2. UKGI will work directly with the Assets, acting as an agent on behalf of HMT, and UKGI will be the main point of day-to-day contact between HMT and the Assets.
- 5.3. HMT will ensure, where possible, that UKGI is invited to all meetings and sighted on all documents relevant to the Assets.
- 5.4. UKGI will ensure that all its documents are filed on UKGI's systems in such a way as to ensure business continuity at the end of any arrangement.
- 5.5. UKGI may interact with members of regulators, BoE, FCA, PRA and the Financial Services Compensation Scheme Limited as and when necessary or appropriate for the fulfilment of its obligations under this MoU and the UKGI Framework Document, but HMT will remain primarily responsible for co-ordinating the actions of regulators in relation to the Assets.

6. Finance

- 6.1. HMT is responsible for paying consultancy and advisors' fees incurred by UKGI in respect of the Assets which are not properly payable by the Assets. UKGI must seek HMT's consent before incurring such fees. UKGI should therefore consult with HMT prior to instructing consultants or other advisors and HMT should be involved in the procurement process as deemed appropriate by HMT.

7. Accountabilities

- 7.1. The accountability to Parliament for the Assets will be:
 - a. **Ministerial level:** HMT ministers
 - b. **Principal Accounting Officer level:** HMT Permanent Secretary
 - c. **Senior Official level:** UKGI
- 7.2. At HMT's request, UKGI senior officials may be required to assist HMT in relation to National Audit Office reports, Public Accounts Committee hearings, and Treasury Committee hearings.

8. Preservation of the independence of the Assets

- 8.1. UKGI will manage the Investments on a commercial basis and will not intervene in day-to-day management decisions of the Assets.

- 8.2. HMT is determined to ensure that: (i) the Investments, and the management of the Investments by UKGI, do not lead to a prevention, restriction, distortion or significant lessening or impediment of effective competition in contravention of merger control or competition law restrictions; and (ii) UKGI adopts appropriate procedures for managing conflicts and inside information. In order to achieve this objective, UKGI will, in particular:
- a. develop and maintain procedures to ensure that:
 - i. it makes decisions in respect of each Asset individually rather than in respect of the portfolio of Assets;
 - ii. it exercises its rights in relation to each Asset individually if and to the extent required to comply with merger control and competition law restrictions; and
 - iii. it does not exercise its rights in relation to the Assets, or otherwise manage the Investments, in a manner which may result in a prevention, restriction, distortion or significant lessening or impediment of effective competition; and
 - b. develop, establish and apply policies and procedures to ensure that it (and its directors, officers and employees) abides by the Code of Market Conduct, and other rules and guidance laid down by the Financial Conduct Authority and recognised investment exchanges to which securities of NatWest 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 UKGI will normally act as other institutional shareholders would act, using published information in a structured dialogue with key members of the NatWest board. In considering whether it is necessary or appropriate for UKGI (or any of its directors, officers or employees) to become an "insider" in relation to NatWest (for example, where it is necessary for UKGI to receive price-sensitive information to enable it to perform its responsibilities under this MoU and the UKGI Framework Document), UKGI will pay due regard to the objective of implementing this MoU and the UKGI Framework Document and manage the situation in accordance with the relevant elements of its Compliance Policies.

Part B – NatWest Group plc

9. Value-realisation

Introduction

- 9.1. In relation to NatWest, it is anticipated that value realisations from the Investments will principally result from a decision relating to the disposal, exchange or conversion of, or other dealing in, all, or a portion of, the Investments in NatWest, or any rights over or in respect of those Investments (including any such disposal effected pursuant to a buyback programme initiated by NatWest) (a "**Disposal Transaction**").

- 9.2. In connection with Disposal Transactions which may be initiated by HMT (or by UKGI in its capacity as manager of the Investments), HMT has entered into a registration and resale rights agreement with NatWest which will enable the shares and other securities held by HMT in NatWest (and the rights over and in respect of those shares and other securities) to be sold in such jurisdictions and in such manner as HMT may determine (“**RRA**”). The RRA requires NatWest, amongst other things, to provide such assistance to HMT with respect to due diligence, marketing and the preparation of documentation (including offering memoranda) as HMT may reasonably require.
- 9.3. Without prejudice to UKGI’s obligations to consult with, and obtain the approval of, HMT with respect to the design, development and implementation of Disposal Transactions (as further outlined in the remainder of this Section), UKGI shall act as the principal liaison point with NatWest with respect to any such transaction (or proposed transaction).

Disposal Transactions

- 9.4. Subject to paragraph 9.5, UKGI and its representatives may, as part of the development and updating of its investment strategy for NatWest, design, develop and implement Disposal Transactions.
- 9.5. UKGI will, in relation to any Disposal Transaction, comply with Part D and will also:
- a. seek HMT’s views in relation to any such Disposal Transactions before entering into any substantive engagement with NatWest (or its directors, officers, employees or advisers) with respect to the design, development or execution of any Disposal Transaction and including, in particular, where such engagement will or may require the exercise by UKGI (on behalf of HMT) of rights or powers under an RRA; and
 - b. obtain HMT’s approval before taking any action to effect, approve or reject any Disposal Transaction.

10. Monitoring NatWest Compliance

- 10.1. UKGI will (on HMT’s behalf) monitor, report on and work to secure compliance with the applicable Company Conditions. UKGI will engage with NatWest on these conditions and shall take such action as it considers to be necessary or desirable to fulfil its obligations in respect of these conditions.

11. Remuneration

- 11.1. In its engagement with NatWest on remuneration issues UKGI will seek to ensure that:
- a. remuneration incentives at NatWest are designed to promote long-term, sustainable performance;

- b. remuneration policies at NatWest:
 - i. are at the leading edge of implementing:
 - o the Financial Stability Board remuneration principles; and
 - o the Financial Conduct Authority remuneration code;
 - ii. where a director of NatWest loses the confidence of the board of directors, they should be able to be dismissed at a cost that is reasonable and fair (no rewards for failure); and
- c. are designed to enable it to attract and retain the staff needed to advance UKGI's objective of protecting and creating value for the taxpayer.

(together, the “**Remuneration Principles**”).

12. Governance

- 12.1. UKGI will engage with NatWest with respect to board composition generally, and in a way that is consistent with the principles set out in this MoU and the UKGI Framework Document.

13. Voting

- 13.1. UKGI will exercise the voting rights attaching to HMT's Investments in NatWest (including, in particular, in respect of ordinary course resolutions proposed at each annual general meeting and any resolutions in respect of any Disposal Transactions).
- 13.2. In exercising voting rights on behalf of HMT pursuant to paragraph 13.1, UKGI will:
 - a. have regard to UKGI's Objectives and any relevant obligations under the UKGI Framework Document;
 - b. adhere to the specific restrictions and requirements outlined in:
 - i. Section 9 in relation to Disposal Transactions;
 - ii. Section 11 in relation to matters pertaining to remuneration; and
 - iii. Section 12 in relation to matters pertaining to corporate governance;
 - c. seek to ensure that any votes are exercised in a manner which will facilitate and ensure compliance with the Company Conditions; and
 - d. adhere to the principles and requirements outlined in Section 3, such that UKGI will (amongst other things):

- i. (on behalf of HMT) vote all the shares wherever practicable to do so;
- ii. inform NatWest in advance of its voting intentions; and
- iii. disclose how it has voted.

- 13.3. UKGI will seek HMT's approval before exercising the voting rights attaching to HMT's Investments in NatWest where:
- a. such approval is required by virtue of Section 9 or Part D; or
 - b. the vote relates to the approval of any transaction pursuant to which NatWest is proposing to effect disposal of an asset or business which is required in order to comply with the Company Conditions.

Part C – UKAR

14. Strategies to meet UKAR's overarching objective

- 14.1. UKAR's overarching objective is to manage any liabilities and other strategic matters arising out of HMT's former investment in the Former UKAR Subsidiaries (the "**Overarching Objective**").
- 14.2. UKGI will (on HMT's behalf) work with UKAR to ensure the strategies required to meet the Overarching Objective are understood and agreed; and will carry out various responsibilities as set out under the framework document drawn up between UKAR and UKGI (the "**Relationship Framework Document**").
- 14.3. UKGI and its representatives must obtain the prior approval of HMT before approving or rejecting any action taken by UKAR which:
- a. may involve, or may reasonably be expected to give rise to, a requirement for HMT to contribute additional capital to UKAR; or
 - b. may, or may reasonably be expected to, lead to a material change in the UKAR strategy.

15. Remuneration, fees and external advisers

- 15.1. The Relationship Framework Document provides that UKGI will (on HMT's behalf) have various responsibilities in respect of:
- a. the approval of the remuneration packages and any incentivisation arrangements for the directors (or advisers) of UKAR;
 - b. board fees; and

- c. the appointment of external advisers or consultants, including the terms upon which they are to be appointed prior to such appointment being finalised.
- 15.2. UKGI will seek the approval of HMT in relation to the remuneration packages and any incentivisation arrangements for the directors (or advisers) of UKAR, as well as in relation to board fees. HMT will also have the opportunity to review the appointment of external advisers or consultants and the proposed terms upon which they are to be appointed.
- 15.3. In its engagement with UKAR on remuneration issues, UKGI will seek to ensure that:
 - a. remuneration incentives are designed to promote performance of directors (or advisers);
 - b. where a director of UKAR loses the confidence of the board, they should be able to be dismissed at a cost that is reasonable and fair (no rewards for failure); and
 - c. remuneration policies are designed to enable the UKAR board to attract and motivate high calibre directors to drive the delivery of the company's strategies to meet the Overarching Objective.

16. Governance

- 16.1. UKGI will (on HMT's behalf), exercise the rights in relation to the board of directors of UKAR arising by virtue of its Investment in UKAR, in accordance with the Relationship Framework Document.

17. Voting

- 17.1. UKGI will exercise the voting rights attaching to HMT's Investment in UKAR.
- 17.2. In exercising voting rights on behalf of HMT pursuant to paragraph 17.1, UKGI will:
 - a. have regard to UKGI's objectives and other obligations under the UKGI Framework Document;
 - b. adhere to the specific restrictions and requirements outlined in:
 - i. Section 14 in relation to matters pertaining to the strategies to meet UKAR's Overarching Objective;
 - ii. Section 15 in relation to matters pertaining to remuneration; and
 - iii. Section 16 in relation to matters pertaining to corporate governance.
 - c. seek to ensure that any votes are exercised in a manner which will:

- i. facilitate and ensure compliance with and delivery of the company's strategies to meet the Overarching Objective;
- ii. facilitate and ensure compliance with the Company Conditions; and
- iii. facilitate and ensure compliance with and delivery of decisions of UKGI in accordance with this MoU and any relevant provisions within the UKGI Framework Document.

Part D – Approvals and Instructions

18. Approvals and Instructions

UKGI's obligations

18.1. In carrying out its responsibilities under this MoU and any provisions within the UKGI Framework Document which pertain to the Assets, UKGI (and its representatives):

- a. will refer all requests relating to any matter for which HMT's prior consent or approval is required under the terms of this MoU promptly to HMT, together with any information or documents pertaining to such requests which are in UKGI's possession;
- b. will inform HMT promptly of any information regarding UKGI that would have required public disclosure if it were listed on the Official List; and
- c. will inform HMT promptly of any information or any approaches to or from third parties pertaining to any matter for which HMT's prior consent or approval is required under the terms of this MoU of which UKGI is aware.

Approvals from HMT; Instructions from HMT

18.2. HMT will have approval rights over:

- a. any variation or waiver of the terms of any agreement between HMT and the Assets or the grant of any consent or approval under such an agreement;
- b. any variation or waiver of the terms of any framework document regarding the Assets;
- 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 MoU;
- d. any action which may have a significant bearing on, or prejudice, HMT's position as a creditor or contingent creditor of an Asset; and

- e. any other actions that fall outside of the scope of the MoU and the discretions vested in UKGI by virtue of this MoU or which may have a significant bearing on or prejudice the delivery of, or compliance with, the activities and objectives set out in this MoU and the UKGI Framework Document.
- 18.3. Notwithstanding the foregoing, HMT may, separately, delegate authority to UKGI to take certain decisions falling within one or more of the categories described above without obtaining prior HMT consent.
- 18.4. HMT will authorise the Treasury Solicitor to take instructions from UKGI in relation to proxy forms, authorisations and other documents which need to be signed in order to give effect to the decisions made by UKGI in compliance with this MoU and the UKGI Framework Document in relation to the Assets, including decisions as to voting.
- 18.5. It is envisaged that any approval of HMT required pursuant to this MoU:
- a. will ordinarily be sought at one of the quarterly relationship meetings (without prejudice to UKGI's right to seek separate approval where it considers it to be necessary or desirable having regard to UKGI's Objectives); and
 - b. in respect of Disposal Transactions may be sought either:
 - i. in respect of a single proposed Disposal Transaction; or
 - ii. by reference to a general authority from HMT to implement Disposal Transactions within agreed parameters (including with respect to pricing and timing).

Part E – Miscellaneous

19. Status of this MoU

- 19.1. It is envisaged that this MoU may be amended, supplemented or replaced by HMT from time-to-time.
- 19.2. In the event of any conflict or inconsistency, the UKGI Framework Document takes precedence over this MoU.
- 19.3. This MoU should be interpreted in the light of UKGI's memorandum and articles of association and English company law and is without prejudice to the statutory and other rights and obligations of HMT or UKGI.