NORTHGATE

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Sent by email to: payman.akhaveissy@hsbc.com

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Dear Payman,

Many thanks for bringing your concerns to our attention.

We would like to provide you with additional commentary in relation to resolutions 3 and 4, which we hope will reassure you.

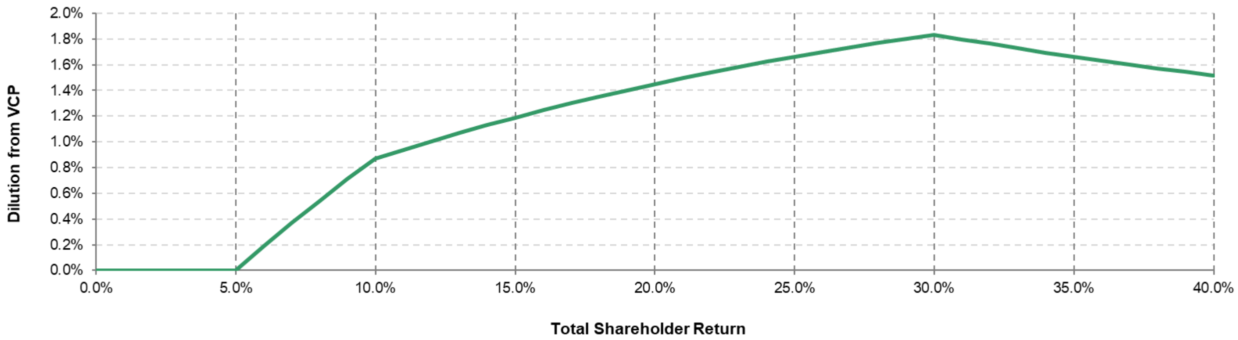
I would say, at the outset, that the Remuneration Committee recognises that the adoption of the VCP does involve departures from conventional governance standards in relation to incentivisation. The view of the Committee is that the potential in the coming three years to create value for shareholders from the platform created by the Merger of Northgate and Redde is very significant and the challenge to the management team is quite different from the usual, steady state business challenge. In recommending incentive arrangements for the period post-Merger the Committee wanted to ensure that the enlarged business retained a senior executive team with the experience, ability and desire to go beyond the contribution generally expected of senior executives and commit themselves completely during this period to take advantage, for the benefit of all stakeholders and shareholders in particular, of the opportunities created by the Merger.

1) **Cap and Quantum:** '*We are concerned that individual awards are not capped in terms of percentage of salary, potentially offering significant quantum of awards to the CEO at the time when underwhelming interim results are announced'.*

The Committee considers that the challenge to create value that the team is being set is incompatible with limitations by reference to salary. When a business is in a steady state and it is unrealistic to expect high levels of total shareholder return the imposition of a cap on the value of awards by reference to salary in understandable but when the opportunities are far greater, as we believe they are following the Merger, the Committee considered it to be against the interests of shareholders to constrain the ambition of management to generate returns for shareholders by imposing a cap referenced to salary.

There is, however, a very clear, firm cap on the percentage of the Company's share capital that can be issued under the VCP. A total cap of 2.0% of the issued share capital of Northgate will apply on vesting of all awards under the VCP. There is a cap of 0.9% for the CEO and a proportionate cap for other participants. In most scenarios the dilution to shareholders from the VCP is well below these maximum levels, as illustrated in the example below.

Example dilution illustration



The Committee considers that the terms of the VCP result in a fair allocation of future value creation between shareholders and the executive management team both in absolute terms and by comparison with similar schemes.

TSR	**Gain to Shareholders**	**Gain to Management**
up to 5%	100%	0%
between 5% and 10%	95.0%	5.0%
between 10% and 30%	97.25%	2.75%
above 30%	99.5%	0.5%

In addition, standard dilution limits continue to apply to all incentive schemes, including the VCP, and the participants in the VCP will not participate in the Executive Performance Share Plan. However, given that it had just been approved and was used for other management team members, we have chosen not to remove it for transparency reasons.

2) **Performance metric**: *'We are also concerned with performance which is solely based on absolute TSR without any additional performance underpin'*

With regard to the use of TSR as the sole performance metric, the Remuneration Committee was attracted by its simplicity and transparency as a measure of success and by its direct alignment of management and shareholder interests. The Committee considered that, at this critical time in the Company's development, the benefits of adopting a simple, clear plan focussed on achieving value for shareholders over the long-term outweighed any perceived compromise in terms of compliance with convention.

The Committee considered carefully the balance between motivation of management and the potential for excessive awards and therefore chose to reduce the level of the share to management at very high levels of return to prevent excessive returns to management as a result of factors outside their control, which might be considered 'windfalls'. Accordingly, the share to management reduces

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sharply at higher levels of return, as illustrated above, and is just 0.5% when TSR exceeds 30% per annum. Furthermore, the Committee has the ability to delay the calculation of the value of the VCP until the period following the next release of interim results, if it considers that the market value of the Company has been artificially impacted by exceptional factors or events, in order to avoid anomalies.

The Committee has reserved the right, under the rules of the VCP, to impose additional conditions on the vesting of awards. It is possible to severely compromise the effectiveness of management incentives if participants are left in doubt as to whether their awards will vest. The Committee intends to balance the protection for shareholders that might be achieved by imposing additional conditions with the greater motivational effect that it perceives from not imposing such conditions. The Committee regards such decisions as context-specific and sensitive to the individuals involved and its current intention is not to impose conditions for the current participants but it would consider the requirement for such conditions if new joiners were invited to participate.

3) **Change of control provisions:** *'…the awards will not be subject to time pro-rating in the event of a change of control*'.

The Committee recognises that there may be merit in time pro-rating awards on a change of control if the contribution of the executive team to the outcome for shareholders was a function of the time they have served. The Committee has adopted the default position that if management is capable of delivering an outcome that the Board recommends to shareholders and shareholders wish to accept it would not be appropriate to penalise the management team if that result was delivered more quickly. Nevertheless, the Committee reserves the right to modify the award if appropriate, as summarised on page 57 of the Circular which states that: "In the event of a change of control, the scheme will be assessed by reference to the performance criteria at the time. The remuneration committee will retain discretion to modify the vesting outcome in any particular case if it considers it appropriate."

We believe that the proposed arrangements will provide the most effective incentive for key executives and are necessary at this vital time following completion of the Merger.

We hope that this commentary helps you to reconsider your stance on Resolutions 3 and 4 and vote FOR proposals that promote the success of the Merger. We would be happy to discuss any remaining concerns you may have.

Yours sincerely,

Katie Tasker-Wood
Company Secretary