

9 January 2020

Dear Northgate Shareholder,

We are reaching out to seek your support on resolutions to be put at our General Meeting to be held on 15 January 2020 which has been convened to approve the all-share Merger between Northgate and Redde and change the name of the Combined Group.

In addition, after careful consideration of the impact of the Merger on incentive arrangements the Remuneration Committee determined that changes to the existing incentive framework are necessary. Therefore, the Northgate Board is proposing to introduce a new long-term incentive plan – the Value Creation Plan ('VCP') – and amend the Remuneration Policy.

As you might be aware, the Proxy Advisers have now published their reports on our General Meeting. While they were supportive of the Merger, we feel that their recommendations on the remuneration-related proposals (Resolutions 3 and 4) are based on the strict voting policy application and do not appropriately take into account Northgate's circumstances and rationale. We have engaged with ISS, Glass Lewis and IVIS on their reports post publication, which led to some of our comments being included in their proxy papers.

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.

We understand that some shareholders may have questions about the VCP and, in turn, on the Remuneration Policy, so we would like to offer you some additional commentary for your consideration.

Performance metric and targets

Awards will be subject to cumulative annual Total Shareholder Return ('TSR') performance targets. The choice of TSR as the performance metric was motivated by its simplicity and transparency as a measure of success and by its direct alignment of management and shareholder interests. The Remuneration Committee set a range of clear and challenging targets, with management only participating in value created above a minimum, compound annual TSR of 5%. Being mindful of the general market caution towards the potential

quantum of pay, the Committee chose to reduce the potential level of the share awarded to management at very high levels of return to prevent excessive returns to management as a result of factors outside their control. Accordingly, the share to management reduces sharply at higher levels of return 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 from the scheduled measurement period following the release of the results for the year to 30 April 2023 until the period following the next release of interim results in order to avoid anomalies if it considers that the market value of the Company has been artificially impacted by exceptional factors or events, so that any payouts will primarily, fairly, reflect underlying performance.

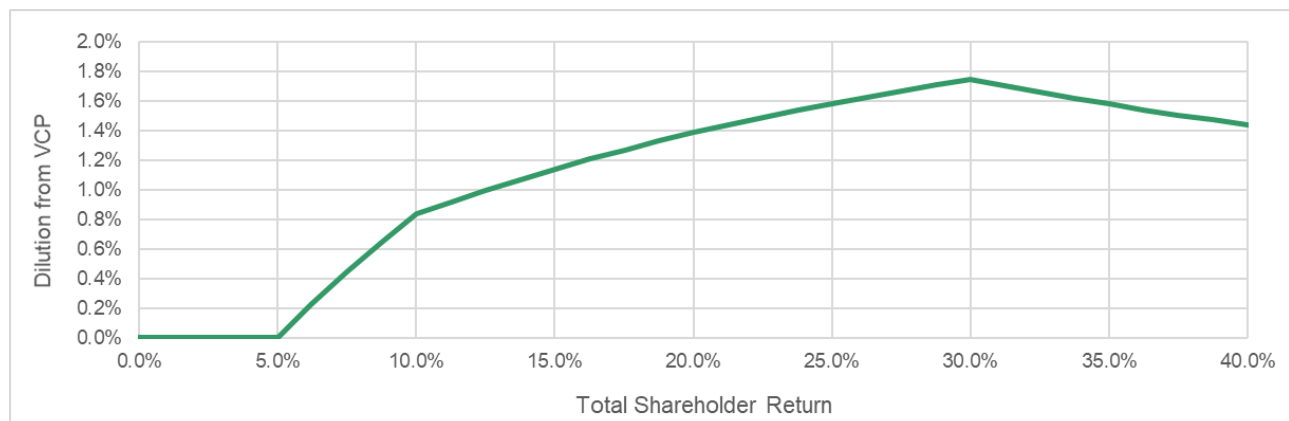
The Committee has also reserved the right, under the rules of the VCP, to impose additional conditions on the vesting of awards. It is possible to severely compromise the effectiveness of management incentives if participants are left in doubt as to whether their awards will vest. The Committee intends 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.

Participation – Individual and aggregate plan limits

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 is understandable, but when the opportunities are far greater, as we believe they are following the Merger, the Committee considers 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.

The plan does, however, operate with a total (maximum of 2% of issued share capital) and individual caps (with a maximum cap of 0.9% of issued share capital for the CEO) that aim to restrict and contain the potential overall quantum of pay. 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, the Remuneration Committee retains discretion to implement a monetary cap on the payout of the VCP awards. Moreover, 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.

Change of control provisions

The VCP rules provide that awards may vest without being 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, 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.”

Recovery provisions

As an additional safeguard, if the Plan is approved, awards will be subject to robust malus and clawback provisions. This information will also be included in our next year’s Annual Report, and the VCP rules will be available for your inspection at the General Meeting.

The Merger has the potential to create value for our and Redde’s investors, and at this critical time in the Company’s development, we feel that all stakeholders will benefit from adopting a simple, clear plan, which is focussed on achieving value for shareholders over the long-term outweighing any perceived compromise in terms of compliance with convention. **Our Board believes that the above changes 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 will help fully inform your voting decision on Resolutions 3 and 4, and we rely on your independent judgement and support of all the proposals that promote the success of the Merger. If you have any remaining concerns with the proposals or have questions that you would like to discuss, please do not hesitate to contact me directly.

Yours sincerely,



Katie Tasker-Wood

Company Secretary