

RNS
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Northern Rock Legal and Capital Restructure

- **HM Treasury has today made The Northern Rock plc Transfer Order 2009 to implement the legal and capital restructure of the Company**
- **This is an important milestone for Northern Rock**
- **The legal and capital restructure will complete on 1 January 2010**
- **Customers need take no action and they can continue to contact Northern Rock in the usual ways**

Overview

Northern Rock plc (the Company) confirms that HM Treasury has today made the Northern Rock plc Transfer Order 2009 (the Transfer Order), which will effect the legal and capital restructuring of the Company on 1 January 2010 (the Transfer Date), and related tax regulations, The Northern Rock plc (Tax Consequences) Regulations 2009 (the Tax Regulations). This Transfer Order provides the legal mechanism through which the restructure will be implemented.

As previously announced, the restructuring will result in two separate companies:

- **Northern Rock (Asset Management) plc** – the existing company (as it will be renamed) which will hold and service the majority of the existing residential mortgage book (approximately £50 billion) and will be regulated by the FSA as a mortgage provider. Upon completion of the restructuring, Northern Rock (Asset Management) plc will surrender certain of its authorisations, including its authorisation to accept deposits. At the Transfer Date, it is expected that over 90% of the mortgages held by Northern Rock (Asset Management) plc will be fully performing and not in arrears. The portfolio will include the Company's residual interest in those mortgages which have been sold to the Granite securitisation programme and the Northern Rock covered bond programme (totalling approximately £38 billion). This company will not offer any new mortgage lending.

Northern Rock (Asset Management) plc will also continue to hold all unsecured loan accounts and will be the borrower in respect of the Government loan and the Company's outstanding wholesale funding and subordinated debt as at the Transfer Date. As part of the restructure, the Government loan will increase by approximately £8 billion to provide cash to be transferred to the new bank to support its retail deposit book and new lending activity.

- **Northern Rock plc** – a new savings and mortgage bank that will hold and service all customer savings accounts (the balances of which are currently approximately £19 billion) and approximately £10 billion of mortgages. The new bank will be regulated as a deposit taker and mortgage lender by the FSA. It will offer new savings products and will also offer new mortgage lending to increase mortgage supply and help sustain a competitive market. Northern Rock plc will also hold certain wholesale deposits.

The restructure provides a more capital efficient structure, with total capital required for the two companies being within the £3 billion level announced in August 2008. At the Transfer Date, HM Treasury will hold - through its nominee - the paid up share capital of the new bank which will be £1.4 billion (1.4 billion ordinary shares of £1 each). HM Treasury has committed to ensure that Northern Rock (Asset Management) plc meets its regulatory capital requirements by undertaking to provide capital of up to £1.6 billion, if such capital is required.

As previously announced, the European Commission confirmed on 28 October 2009 that it had approved the restructuring plan for Northern Rock. The Company continues to work closely with the FSA to gain the necessary regulatory approvals for the two companies.

The Transfer Order will be published on the website of the Office of Public Sector Information (<http://www.opsi.gov.uk>). The Transfer Order, the Tax Regulations and the English and Irish transfer administration agreements between the Company and the new bank dated 7 December 2009 relating to the Transfer Order (the Transfer Administration Agreements) are available on the HM Treasury website (www.hm-treasury.gov.uk).

Customers

For Northern Rock customers it is business as usual and they need take no action. All savings accounts will be transferred to the new bank, Northern Rock plc, on 1 January 2010. The majority of mortgage accounts will remain in the existing company, Northern Rock (Asset Management) plc, and a proportion of mortgage accounts will be transferred to the new bank, Northern Rock plc, also on 1 January 2010. All customers will be informed in writing during

January as to which company holds their account.

The aim is to make this process as seamless as possible for customers, who can continue to contact Northern Rock in the usual ways. There will be no changes to product terms and conditions as a result of the restructuring and both companies will continue to provide the same high level of service to customers.

Gary Hoffman, Chief Executive said:

“Today is a very important step towards completing the legal and capital restructure of Northern Rock into two separate companies on 1 January 2010.

“We want this to be a seamless process for our customers and they do not need to take any action. We will be writing to them in early January confirming which company holds their account – but we have already confirmed that all savings accounts will be in the new bank.

“I am pleased with the progress to date and all of the hard work colleagues are doing behind the scenes to ensure this is a smooth process for customers.”

Further Detail on the Transfer

The rights and liabilities of the existing Company under various operational, intermediary and other arrangements, certain subsidiaries and other shareholdings, the Northern Rock brand and other intellectual property rights, the goodwill in the business transferred, approximately £400 million of investment securities, certain wholesale deposits and cash of approximately £9 billion will also be transferred to the new bank, together with certain freehold and leasehold properties, including the existing branch network which customers of both the new bank and the existing Company will be able to use.

The assets and liabilities to be transferred are described in detail in the Transfer Order and the Transfer Administration Agreements.

All individuals employed by the Company at the Transfer Date will transfer to the new bank and the Transfer of Undertakings (Protection of Employment) Regulations 2006 and sections 257 and 258 of the Pensions Act and in Ireland the European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003 apply to the transfer. Past service liabilities in respect of the existing Northern Rock pension scheme are not being transferred and will remain in Northern Rock (Asset Management) plc. A new scheme on equivalent terms will be established in the new bank for future service pension benefit accrual.

In order to maintain business continuity, the new bank, Northern Rock plc, will provide certain mortgage administration and other services to Northern Rock (Asset Management) plc for a transitional period after completion of the restructure. In addition, Northern Rock (Asset Management) plc will, for a transitional period, provide interest rate, equity index and currency hedging to Northern Rock plc in relation to the business transferred to the new bank as part of the restructure.

The Transfer Order has the effect of modifying certain instruments to which the Company and its subsidiaries are party, to negate certain consequences which may otherwise arise as a result of the Transfer Order. For example, no party is entitled to terminate any arrangement, receive an increased or accelerated payment or decrease, defer or withhold any payment pursuant to any arrangement, or otherwise amend the terms of, or impose any condition on or exercise any right or remedy in respect of, any arrangement by virtue of, or in consequence of, the Transfer Order.

Further Detail on Northern Rock (Asset Management) plc

Northern Rock plc will be renamed Northern Rock (Asset Management) plc at completion of the restructure.

- ***Guarantees***

HM Treasury has today released details of the guarantee arrangements which will be put in place for Northern Rock (Asset Management) plc, which will apply following completion of the restructure. Full details of these announcements can be found on the HM Treasury website at www.hm-treasury.gov.uk.

The Government wholesale guarantees in respect of the Company will be modified with effect from completion of the restructure, as described in the announcement made by HM Treasury today. The Company will not hold any retail deposits following completion of the restructure and, therefore, will not have any retail guarantees.

- ***Covered Bonds***

The Company notes that the terms of the HM Treasury guarantee arrangements in respect of its covered bonds are currently under review with the objective of sustaining and supporting the credit rating of the programme. A further announcement will be made in due course following conclusion of that review.

The Company confirms that eligible assets will be transferred to Northern Rock Covered Bond LLP in an amount sufficient to support the credit ratings of the covered bonds consistent with applicable criteria. Any changes to the composition of the asset pool will be communicated in the normal way through the monthly investor reports.

- ***Subordinated Debt***

Northern Rock (Asset Management) plc will continue to be the borrower in respect of all Northern Rock subordinated debt outstanding at the Transfer Date. As previously announced, where the contractual terms allow, it will not call or pay principal or coupons on these instruments whilst it is in receipt of State Aid.

Any resulting deferral of subordinated debt payments will be made in accordance with the terms and conditions of the relevant instruments, including providing any required notice to noteholders at the appropriate time.

Further Detail on Northern Rock plc

The new company, Northern Rock plc, is currently called Gosforth Subsidiary No 1 plc, and will be renamed Northern Rock plc at completion of the restructure. At general meetings held on 1 December 2009 for Gosforth Subsidiary No 1 plc and Northern Rock plc, HM Treasury - as the sole shareholder for each company - formally approved and ratified the entry of Gosforth Subsidiary No 1 plc and Northern Rock plc into the transactions contemplated by the Transfer Order and all related documentation.

- ***Guarantees***

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of these announcements can be found on the HM Treasury website at www.hm-treasury.gov.uk.

Retail deposits will continue to be guaranteed in the new bank following the restructure. Given the Company's good progress to date and the new bank's strong capital and liquidity position, release of this guarantee will be reviewed by HM Treasury following completion of the restructuring. As previously stated by HM Treasury, any decision to release this guarantee is subject to a minimum notice period of three months and fixed term accounts will retain the guarantee for the term of the product.

Certain limited classes of wholesale deposits and borrowings of the new bank will be guaranteed until 31 December 2010.

Media Contacts

Northern Rock:

Brian Giles
Simon Hall
Tel: 0191 279 4676
E-mail: press.office@northernrock.co.uk

Brunswick:

Anita Scott
Nigel Prideaux
Charlotte Kenyon
Tel: 020 7404 5959

Treasury Contacts

Antony Swalwell
Tel: 0191 279 4553
E-mail: antony.swalwell@northernrock.co.uk

Lesley Ann Rawcliffe
Tel: 0191 279 4077
lesley.rawcliffe@northernrock.co.uk

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Forward-looking statements are sometimes, but not always, identified by the use of a date in the future or by such words as "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "potential", "reasonably possible", "targets", "goal" or "estimates" (although their absence does not mean that a statement is not forward looking). By their nature, forward-looking statements are unpredictable and involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Northern Rock's actual future results or developments may differ materially from the results and developments expressed or implied in these forward-looking statements as a result of a variety of factors, including (but not limited to) UK domestic and global economic and business conditions, market related risks such as interest rate and exchange rate volatility, delays in implementing proposals, difficulties with computer systems, legislative, fiscal, competition and regulatory developments and changes, the impact of any legal or other proceedings against Northern Rock, changes in customer preferences and other factors.

All forward-looking statements in this announcement are based on information available to Northern Rock as of the date hereof. All written or oral forward-looking statements attributable to Northern Rock or any person acting on behalf of Northern Rock are expressly qualified in their entirety by the foregoing.

Other than in accordance with its legal or regulatory obligations, neither Northern Rock nor anyone acting on its behalf undertakes any obligation to update or revise any forward looking statement, whether as a result of new information, future events or otherwise.