



Press Release

NORTHERN ROCK PLC

18 MARCH 2008

NORTHERN ROCK OUTLINES INTENTIONS FOR FUTURE DIRECTION OF THE BUSINESS

- **Smaller, more focussed, financially viable mortgage and savings bank**
- **Staffing levels reduced by around a third by 2011**
- **Asset base reduced by around a half**
- **All forms of public support progressively phased out over the next three to four years**

The Board of Northern Rock is today setting out its intentions for the future direction of the business during the period of temporary public ownership. These are being worked up into a full business plan, which will be submitted to HM Treasury (HMT) for approval by the end of the month. The Government has today confirmed that it has sent the European Commission the necessary formal notification of its intention to continue to provide the existing restructuring aid to Northern Rock to support this process.

The Board of Northern Rock will be submitting to HMT a plan which will set out the basis for the removal of Government support through the creation of a smaller, more focussed, financially viable mortgage and savings bank which will be returned to the private sector.

The proposed plan will be designed to deliver the Government's previously stated objectives to protect UK taxpayers, promote financial stability and protect depositors, and will be based around four strategic priorities:

- Contracting to a smaller, sustainable business through a reduction in the asset base of around a half by 2011, whilst maintaining a modest level of new loan origination.
- Progressive repayment of the Bank of England loan and release of the Government guarantees over the next three to four years, while increasing the level of retail deposits to form a larger share of total funding.
- Restructuring the organisation and its operations so that these are aligned to the business objectives. The initial assessment is that this will involve staffing levels falling by around a third by 2011, though the final figure will depend on the business plan ultimately adopted, and the evolution of the business in the light of market and economic developments.
- Strengthening risk management in key business areas.

Ron Sandler, Executive Chairman, said: "I am pleased that we are making good progress in developing our provisional business plan. This will be a robust plan to create a smaller mortgage and savings bank that will be tightly focused and financially viable.

"It will be a demanding plan, and one that will carry a number of financial and operational risks. Market conditions remain uncertain and a protracted downturn in the housing market would clearly present challenges to its achievement. But we are testing it carefully across a range of scenarios and are confident that we can produce a plan that will be delivered.

"As regards the organisational restructuring, we will work sensitively with our staff and UNITE to minimize the extent and impact of job losses. We are already closely engaged with local agencies, including One NorthEast, to ensure that affected staff are offered as much support as possible. I am determined that Northern Rock will remain a major employer in the North East with sufficient financial strength and stability to allow it to return, in due course, to the private sector."

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NORTHERN ROCK: FUTURE DIRECTIONS

CORE OBJECTIVES

The plan to be submitted to HM Treasury will set out the basis for the removal of Government support through the creation of a smaller, more focussed, financially viable mortgage and savings bank which will be returned to the private sector. It will be based around four strategic priorities:

- Contracting to a smaller, sustainable business through a reduction of around half in the asset base by 2011, whilst maintaining a modest level of new loan origination.
- Progressive repayment of the Bank of England loan and release of the Government guarantees over the next three to four years, while increasing the level of retail deposits to form a larger share of total funding.
- Restructuring the organisation and its operations so that these are aligned to the business objectives. Our initial assessment is that this will involve staffing levels falling by around a third by 2011, though the final figure will depend on the business plan ultimately adopted, and the evolution of the business in the light of market and economic developments.
- Strengthening risk management in key business areas.

The plan will be designed to prepare the bank for a return to private ownership, although clearly the achievement of this objective and the timing will be subject to a number of financial, operational and market risks.

COMMERCIAL STRATEGY

The bank will continue to operate as a retail bank but more narrowly focused on prime mortgages and retail savings in the UK. The Northern Rock brand will be retained.

Retail savings

- The level of retail deposits will increase to form a larger share of total funding.
- The current size of the domestic branch network will be maintained to support retail deposit growth.
- Market share of UK deposits will be increased slowly, although this will remain below historic levels throughout the plan period.

Mortgages

- Mortgage origination will be focused on prime residential mortgages, to maintain credit quality and maximise capital efficiency.
- The business will originate sufficient mortgages to replenish the Granite pool as required and operations will be managed with the intention of continuing the Granite programme.
- An active redemption programme will be established to downsize the balance sheet and repay Government loans, while protecting the quality of the mortgage book.
- The business will preserve a much smaller presence within the intermediary mortgage market, concentrating on its most important partners, as well as writing mortgages through direct channels.
- Market share of mortgage origination will reduce significantly below the level achieved in 2007.

Overseas

- The Danish savings operation will be closed to new customers and deposits repaid to customers in 2008, as part of our business restructuring
- Savings operations in Ireland and Guernsey will be maintained, keeping the benefit of some diversification in the funding base.

Unsecured Lending

- The bank will withdraw from new on balance sheet unsecured lending.

Competition

- The bank will ensure that it will not use its Government support to compete on an unfair basis.

Financing

- The bank will seek opportunities for further limited asset sales.
- It will make a staged and cautious return to the wholesale financing market.

RISKS AND CONTROLS

A fundamental review of risk management and controls throughout the bank has been initiated. This is covering specific business risk areas (such as credit, liquidity, operational and market) as well as overall strategic risk.

RESTRUCTURING

Reducing the size of the business is necessary to ensure that Northern Rock has a sustainable future beyond temporary public ownership:

Staff levels

- Our initial assessment is that it will be necessary to reduce staffing levels by around a third by 2011, with the majority of the reduction likely to occur in the first year.
- The final figure will depend on the business plan ultimately adopted, and the evolution of the business in the light of market and economic developments.
- The bank is committed to doing all it can to communicate openly with staff and provide the best possible support through the changes ahead.
- The bank will work closely with UNITE and other employee representatives to reduce staff numbers in a fair and considered manner.
- Outplacement services will be provided to help affected staff find alternative employment in the region, working closely with local agencies including One NorthEast.
- The bank will also explore opportunities to provide third-party core administrative and processing services, to minimise the scale of reduction.

Incentives

Recognising the scale of the challenges, an organisation-wide incentive scheme will be introduced for all staff, linked to achievement of the business objectives. Incentive payments will be geared to repayment of the Government loans, the release of the Government guarantees and a successful return to the private sector.

COMMITMENT TO THE NORTH EAST

Northern Rock will remain a significant employer in the North East and contributor to the communities in which it operates.

- It will maintain its presence in both Newcastle and Sunderland.
- Working closely with One NorthEast, it will continue to play a part in the development of the region.
- Through The Northern Rock Foundation, it will continue to support disadvantaged communities and individuals in the region.