

## **NORTHERN ROCK PLC**

### **European Commission approves State Aid package for Northern Rock**

- **This is an important milestone for Northern Rock**
- **It is an essential requirement for the legal and capital restructure**
- **New structure will be capital efficient and deliver value to taxpayers**
- **It is business as usual for customers and they need take no action**

#### **Overview**

The European Commission ("EC") has today approved the Government's State Aid package for Northern Rock (the "Company"). A copy of the press announcement made today by the EC will be posted on the Investor Relations section of the Company's website.

This approval is an essential requirement of the planned legal and capital restructure, which is central to the business plan for Northern Rock. The restructure will strengthen the capital and liquidity position of Northern Rock significantly, and offers value for money to taxpayers by adopting different regulatory frameworks to create a capital efficient structure. The restructure will also enable Northern Rock to be an active participant in the UK mortgage market.

Good progress is being made with preparation for the proposed legal and capital restructure, which is expected to complete by the end of 2009, subject to FSA approval.

For Northern Rock customers it is business as usual and they need take no action. The aim is to make this process as seamless as possible, and customers will be kept informed of progress. Information on the restructure is available on the Company's website and all customers will be informed in writing once the restructure has completed.

#### **Gary Hoffman, Chief Executive said:**

"Receiving approval from the European Commission is an important and positive step for Northern Rock, our customers, employees and the Government. We are making good progress towards achieving the legal and capital restructure and will continue to work with the Government and the FSA to achieve the necessary approvals. We are delivering on our promises."

## Legal and Capital Restructure

The business plan approved today by the EC reflects the change in business strategy announced in February 2009, which included a slower rate of mortgage redemptions and an increase in the level of new mortgage lending.

The proposed restructuring will result in two separate companies:

- **Northern Rock plc** – a new savings and mortgage bank that will hold and service all customer savings accounts and some existing mortgage accounts. The bank is proposed to be authorised as a deposit taker by the FSA and will offer new savings products. It will also offer new mortgage lending to support the Government's objective of increasing mortgage supply and sustaining a competitive market. Northern Rock plc will hold some wholesale deposits.
- **Northern Rock (Asset Management) plc** – the existing company which is proposed to hold and service the balance of the existing residential mortgage book and, subject to FSA approval, will be regulated as a mortgage provider, not a deposit taking bank. 90% of the mortgages held by Northern Rock (Asset Management) will be fully performing and are not in arrears, and this company would not, therefore, be accurately described as a 'bad' bank. The portfolio will include the Company's interest in those mortgages allocated to the Granite securitisation and covered bond programmes. It will not offer any new mortgage lending.

Northern Rock (Asset Management) will also hold all unsecured loan accounts, the Government loan and Northern Rock's current wholesale funding and subordinated debt instruments.

This offers a capital efficient structure for the business, which will require additional capital for Northern Rock and Northern Rock (Asset Management) within the £3 billion level announced in August 2008.

## European Commission Approval

Northern Rock plc and Northern Rock (Asset Management) plc will both be in receipt of State Aid following the restructure. The EC has approved the aid package following an extensive and rigorous review process under European State Aid rules.

Northern Rock has always been conscious of its obligation to avoid competitive distortion while in receipt of State Aid, and has operated under self-imposed restrictions in the form of a Competitive Framework since early 2008. The Government has offered a number of compensatory measures, which have been agreed with the EC in order to continue to avoid competitive distortion in the market. These measures will replace the existing Competitive Framework commitments following the restructure and it is expected that they will be confirmed in the EC's full decision. The measures that Northern Rock plc and Northern Rock (Asset Management) plc expect that they will be required to implement as part of the proposed restructuring include:

- Northern Rock plc will limit new lending volumes to £4 billion in 2009, £9 billion in 2010 and £8 billion in 2011.
- Northern Rock plc will maintain retail deposit balances across the UK, Ireland and Guernsey at or below £20 billion until the end of 2011.
- Northern Rock plc will not rank in the top three of Moneyfacts mortgage categories for 2, 3 or 5 year fixed or variable mortgages before the end of 2011 (excluding mortgages with an LTV ratio of greater than 80% and products for first time buyers).
- Northern Rock (Asset Management) plc will continue to hold all existing subordinated debt and, where it is contractually able, will not pay principal or coupons on these instruments while 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 such subordinated debt, including providing required notice to holders at the appropriate time.

The Government guarantee of Northern Rock retail savings remains in place and, as currently, the Company will not promote the guarantee arrangements. Given the Company's good progress and the new bank's strong capital and liquidity position, release of the guarantee will be reviewed by HMT and the FSA following completion of the restructure. As previously stated, any decision to release this guarantee is subject to a minimum three month notice period, and fixed rate bonds will retain the guarantee for the existing term of the product.

The Government wholesale guarantees for Northern Rock (Asset Management) will remain in place following completion of the restructure. Wholesale guarantees for Northern Rock plc will be put in place following completion of the restructure for a period until the end of 2010. Full details of these guarantees will be published in due course.

## **Government Loan**

As previously announced, the revised business strategy has resulted in an extension of the repayment profile of the Government loan, reflecting new mortgage lending activity and slower redemptions. The Government loan will remain in Northern Rock (Asset Management) and the loan balance will increase by £8 billion on completion of the restructure in order to fund cash to be transferred to Northern Rock. This relates to the transfer of the deposit book to Northern Rock and will enable it to provide new mortgage lending.

Northern Rock continues to make good progress towards the legal and capital restructure, and today's announcement from the EC is a significant milestone in the process. The Company is continuing to work on implementing the restructure, which remains conditional on FSA approval.

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## **Notes to Editors**

The decision from the EC follows its announcement in May 2009 that it was extending the scope of its investigation, under State Aid rules, into the UK's proposed State Aid package for the Company, and the subsequent announcement in June 2009 that it had invited third parties to comment on the State Aid package.

Northern Rock has been subject to a range of restrictions in the form of its Competitive Framework since it entered temporary public ownership in 2008. The Office of Fair Trading concluded in their report of March 2009 that public support for Northern Rock in the period from February 2008 to February 2009 did not have a significantly adverse impact on competition, taking into consideration the Competitive Framework in place.

## **Important Notice**

This document contains certain forward-looking statements with respect to the plans and objectives of Northern Rock, its current goals and expectations relating to its future financial condition and performance and the future operations of its business.

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.