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**NORTHERN ROCK PLC**  
**13 DECEMBER 2007**  
**NORTHERN ROCK UPDATE**

**Strategic Review**

Since its announcement on 26 November 2007, the Company has continued to pursue discussions with the Virgin Consortium on an accelerated basis. At the same time, the Company has engaged with other parties, including Olivant, to explore their expressions of interest as part of its review of its strategic options in the interests of shareholders, creditors, customers and other stakeholders of the Company. In line with its previously announced objective, the Company will complete its strategic review by February 2008.

Northern Rock emphasises that there can be no certainty as to the outcome of these discussions. Any proposal which Northern Rock wishes to pursue will also have to be evaluated by the Tripartite Authorities in light of their previously announced objectives.

**Management Changes**

On 16 November 2007, the Company announced that Adam Applegarth's tenure as Chief Executive would come to an end following completion of the second phase of the strategic review process. It has now been agreed that Mr Applegarth will cease to be Chief Executive of the Company with immediate effect and, accordingly, will cease to be a Director and an employee of the Company.

Andy Kuipers becomes Chief Executive and has been reappointed as a Director of the Company. His appointment will take effect upon him obtaining approval from the FSA under its approved persons regime. The Company's strategic review will continue to be progressed under the supervision of the Board, with assistance from the Executive Committee, led by Andy Kuipers, and the Company's financial, legal and accounting advisers.

Northern Rock Chairman Bryan Sanderson said:

"I am delighted that Andy has rejoined the Board as Chief Executive. I am confident that he is the right person to help manage the Company through the strategic review process.

"On behalf of the Board I would like to thank Adam Applegarth for his contribution to Northern Rock over a 24 year period."

Adam Applegarth said:

"It is time to hand over to management who I'm confident will be part of the Company's future. I wish them and the Board every success. "

## Treasury Investments Update

Further to our trading update on 14 September 2007, we take the opportunity to provide additional information to the market on our Treasury Investments.

The actual impairments noted below, together with potential impairments on the collateralised debt obligation (CDO) portfolio, in total amount to £281 million. Taking into account these impairments, Northern Rock would still have surplus regulatory capital under Basle II.

The Company's holdings of capital notes in structured investment vehicles (SIVs) totalled £319 million as disclosed on 14 September 2007 (subject to adjustments for foreign exchange revaluations). The Company's SIV investments are classified as loans and receivables and are not fair valued but are subject to a test for impairment. The Company's SIV investments have been assessed on a case by case basis including whether committed funding is in place. Following this assessment and taking into account the net asset value (NAV) of each SIV we have calculated that an impairment charge of £118 million should be made in relation to this investment portfolio, which will be reflected in the current year income statement.

The Company originally had an exposure of £35 million to three SIV-lite investments, which will require an impairment charge in the current year income statement of £32 million despite one of these vehicles having being restructured into a cash-flow CDO in early September.

The Company's portfolio of US\$ CDOs amounts to £167 million with a mark to market value of £36 million at the end of November 2007. As mark to market valuations have been extremely volatile (the October month end valuation was £50 million) and may not reflect either actual or expected impairments, but are a consequence of current market illiquidity, any necessary impairments of these assets will be determined at the year end in light of prevailing market and credit conditions. The mark to market reduction in value of the CDOs is recorded within the available for sale (AFS) reserve with any subsequent impairment being recycled through the income statement when recognised.

A review of our other AFS assets has been undertaken, and while these have seen some market price falls, these falls are considered to be due to widening credit spreads and severe liquidity shortages rather than the performance of the underlying assets. Consequently, no provision for impairment is considered necessary against this portfolio.

### Notes to Editors:

1. Andy Kuipers (aged 49) was appointed to the Board of Northern Rock as an Executive Director in January 2005. Before his appointment as Chief Executive he was responsible for the co-ordination and direction of the Company's sales, marketing, products, pricing and retention activities. Andy joined Northern Rock in 1987, having previously worked in banking in Holland. He is married with two children.
2. The Company confirms that under the terms of a settlement agreement reached with Mr Applegarth the Company will pay him substantially less than the amount which he would otherwise have been due on termination of his employment by the Company. In addition, the Company has secured Mr Applegarth's agreement to payment being made to him in monthly instalments rather than as a lump sum with an offset in respect of any replacement earnings. Full details of Mr Applegarth's termination arrangements will be disclosed in the Company's Annual Report and Accounts for 2007.

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