

NORTHERN ROCK PLC

EXTRAORDINARY GENERAL MEETING (“*EGM*”) HELD ON 15 JANUARY 2007 AT 10:00

AT METRO RADIO ARENA, NEWCASTLE UPON TYNE, NE4 7NA

QUESTION AND ANSWER SUMMARY

At the EGM, questions were asked by many shareholders and their proxies. A list of the themes covered is set out below, followed by a summary of the questions and answers.

A. The Board of Directors

1. Selection of Directors
2. Intentions of Directors
3. New Directors’ share purchases
4. Adam Applegarth’s sale of shares
5. Other Directors’ sale(s) of shares
6. Sir Ian Gibson’s share ownership and compensation
7. Bonuses for Directors

B. Plans for the Company

8. The strategic review timeline
9. The Virgin proposal
10. Plan B/stand-alone plan
11. Nationalisation
12. Attracting new depositors

C. Employees, Small Shareholders and Pension Scheme Members

13. Employees bonuses
14. Small shareholders
15. Pension scheme members

D. Past Events

16. The credit crunch
17. Lloyds TSB
18. Legal action
19. Cancellation of dividend

E. Miscellaneous

20. Re-ordering the resolutions
21. Sale of mortgages to JP Morgan
22. Deposit base
23. 'Together' mortgages

A. The Board of Directors

1. Selection of Directors

- (a) A question was asked about the process for appointment of non-executive Directors to the Board.
- (b) The Chairman responded that the Board went through the standard process of hiring a headhunting agency which identified candidates for the Board to consider. The Nominations Committee put forth several candidates from which the Board chose the non-executive Directors. The Directors were then approved by the FSA under its “approved persons” regime.

2. Intentions of Directors

- (a) Assurances were sought that the non-executive Directors would hold the Company’s executives accountable to shareholders and each non-executive Director was requested to state his intentions for the Company.
- (b) The Chairman responded that the non-executive Directors would attempt to hold the executives to good practice to deliver a better future for Northern Rock over the next few weeks and months as that is why they were there. The Chairman added that the non-executive Directors were a hard-working and authoritative group of people and that he felt that the shareholders should give them their confidence.

3. New Directors’ share purchases

- (a) A question was raised as to when the Company’s new Directors intended to purchase Northern Rock shares. It was also suggested that, if the Directors were not happy to purchase shares in the Company, that they be paid in shares rather than in cash.

- (b) The Chairman responded that there were two reasons why the new Directors did not own shares in the Company. First, under the law, Directors were not permitted to purchase shares in the Company while in possession of inside information. While the strategic review continues, it has been the Board's assumption that it has inside information which has prevented the new Directors from dealing. Second, the Chairman indicated there was a case for having Directors who receive a salary only and thus cannot be accused of having a financial interest in the outcome of their decisions.

4. **Adam Applegarth's sale of shares**

- (a) The Chairman was asked why Adam Applegarth was allowed to sell his shares and "make a lot of money" from them.
- (b) The Chairman responded that there were a large set of rules and regulations which apply to share dealings by directors of a listed company. Provided the shares were sold in an open period, which they were, Mr Applegarth was entitled to exercise his right as a shareholder (and not as a director or an employee) to trade his shares.

5. **Other Directors' sale(s) of shares**

- (a) The Chairman was asked how many Directors of the Company sold shares last year.
- (b) The Chairman indicated that Directors' individual share transactions during the course of the year would be disclosed in the Company's annual report and accounts for the year ended 31 December 2007.

6. **Sir Ian Gibson's share ownership and compensation**

- (a) A question was raised as to why Sir Ian Gibson remained a Director and whether he was still earning the amount that he was before. The Board was

also asked how many shares Sir Ian Gibson held in February 2007 and how many shares he held in September 2007.

- (b) The Chairman responded that the remuneration of Sir Ian Gibson would be disclosed in the Company's annual report and accounts for the year ended 31 December 2007. He also stated that Sir Ian Gibson owned 15,000 shares in February 2007 and still owns those shares today.
- (c) The Chairman added that, on a personal basis, he considered that, without Sir Ian, the shareholders would be in a very perilous position. He said that Sir Ian had been working more or less full time for the Company since the summer of 2007. He continued that Sir Ian had been absolutely invaluable and that he owed him an enormous amount. The Chairman concluded by saying that he was absolutely certain that it was in everybody's interests that Sir Ian's services were retained on the Board.

7. Bonuses for Directors

- (a) The Chairman was asked why substantial bonuses were paid to senior Board members.
- (b) The Chairman responded that since September 2007, no bonuses had been paid to Board members at all.

B. Plans for the Company

8. The strategic review timeline

- (a) The Board was asked why it was taking so long for the Board to complete the strategic review process.
- (b) The Chairman responded that in October 2007 the Company announced that the target date for the completion of the strategic review process would be February 2008 and the Company was still on schedule to meet that deadline.

February 2008 was chosen for several reasons, including the complexity of the process and the difficulty of obtaining financing given market conditions. The Chairman stressed that the Company was working very hard to complete the strategic review process.

9. **The Virgin proposal**

- (a) It was proposed that the Company “take over Virgin” rather than accepting the Virgin Consortium’s proposal for the Company.
- (b) The Chairman responded that the strategic review process was ongoing and he could not comment on individual proposals at that time.

10. **Plan B/stand-alone plan**

- (a) The Board was asked whether the Company had a “plan B” in the event that funding for the Virgin and Olivant proposals fell through. Questions were also raised as to whether the Company could come to an arrangement with the Government to formalise the lending it had received from the Bank of England and carry on as before, and, if so, how feasible that option would be.
- (b) The Chairman emphasised that the strategic review process remained work in progress. He explained that part of the strategic review process included the consideration of a stand-alone option, which the Company was continuing to evaluate.

11. **Nationalisation**

- (a) The Board was asked whether it would assure shareholders that it would vigorously oppose any attempt by the Government to nationalise the Company or any “artificial administration scheme that extract[ed] the Company from the ownership of the current shareholders”. The Board was also asked what it would consider a fair share price in the event of nationalisation.
- (b) The Chairman responded that the Board was seeking a private sector solution for the Company and nationalisation (including the price paid to shareholders in the event of nationalisation) was a matter for the Government over which the Company had no control.

12. **New deposits**

- (a) The Board was asked what it was doing to attract new deposits.
- (b) The Chief Executive highlighted several examples of steps taken to attract and retain deposits:
 - (i) very strong advertising since December 2007;
 - (ii) increased rates on the Silver and Tracker Online Accounts;
 - (iii) the decision not to reduce savings account rates from 1st January when several competitors did; and
 - (iv) the decision to offer existing depositors a 0.5% loyalty bonus during the months of January and February 2008.
- (c) The Chief Executive also pointed out that the deposit outflow had been slowing and that deposit intakes had been growing.

C. Employees, Small Shareholders and Pension Scheme Members

13. Employee bonuses

- (a) A question was asked as to whether shareholders' votes on the resolutions could influence the payment of retention bonuses to the Company's senior management. It was also suggested that all employees receive retention bonuses.
- (b) The Chairman indicated that, in his experience, when a company has difficulties, it is a prudent and sensible business practice to pay retention bonuses to key staff and that such payments in Northern Rock's case were in the best interests of the Company's shareholders.
- (c) The Chief Executive clarified that the retention bonus scheme was not only for senior managers but involved other members of staff across the Company in pivotal roles. He also pointed out that many of the Company's employees, apart from senior management, received pay increases in 2007 and Christmas bonuses.

14. Small shareholders

- (a) The Board was asked whether small shareholders were likely to be "sacrificed" in the "final outcome". Another question asked for the Board's best estimate of what shareholders would receive in the end.
- (b) The Chairman responded that the situation was a very complex one and he did not know what the Company's shares would be worth in the future. He emphasised that all shareholders were and must be treated in the same way as a matter of law. He stressed that all of the Company's shareholders were important and their interests were taken into account.

15. Pension scheme members

- (a) A shareholder, who is also the Chairman of Trustees of the Northern Rock Pension Scheme, asked the Board to confirm that securing the position of the pension scheme was in the best interests of the Company, its staff and its brand and to explain how this would be achieved. Another question raised asked what reassurances the Board could give members of the pension scheme that they would not be expected to increase their pension contributions to make up for any shortfall in the scheme.
- (b) The Chairman responded that the Company was looking hard for a solvent solution for the Company and continued to maintain an active dialogue with the pension scheme trustees who were currently valuing the assets and liabilities of the pension scheme using a conservative valuation method. The funding position of the pension scheme would look very different if a less conservative valuation method were applied. Given the ongoing strategic review process, it was not possible to give a precise indication of the future value of the fund or the basis on which it should be valued nor was it possible at this stage to say whether pension members may be required to increase their contributions.
- (c) The Chief Executive added that the current projected deficit in the pension scheme did not represent any immediate risk to the payment of pension benefits, which continued to be paid as normal.

D. Recent History

16. The credit crunch

- (a) The Chairman was asked why the Company's problems were not discovered prior to August/September 2007.
- (b) The Chairman replied that the speed, extent and duration of the credit crunch were not foreseen and that this was not just by Northern Rock. He explained that it was a set of circumstances which had caught Northern Rock with a strategy that was not suited to the stress that it came under.

17. Lloyds TSB

- (a) A question was raised as to why shareholders were denied the opportunity to benefit from the interest shown in the Company by Lloyds TSB and whether Board policy or Government intransigence played a role in that outcome.
- (b) Sir Ian Gibson responded that in the period up to the middle of September, and when the Company approached the Bank of England for funding, the Board at the time and its advisers were in active discussions with a number of banks, both from the UK and elsewhere, about the possibility of them acquiring all or part of Northern Rock in order to avoid the need for funding from the Bank of England.
- (c) Sir Ian continued that Lloyds TSB had been one of the interested parties. The Board had no direct knowledge of what discussions there had been between Lloyds TSB and the Government. It had been reported, though, that Lloyds TSB had approached the authorities in order to obtain the liquidity which it would need had it acquired Northern Rock. In the end, Lloyds TSB had told Northern Rock that it was unable to make an offer and therefore there was nothing the Board could have brought to shareholders.

18. **Legal action**

- (a) A question was asked as to whether the present Board intended to take advice as to whether legal proceedings against previous Directors and executives were warranted.
- (b) The Chairman responded that, once the strategic review process had ended and the Board had come up with a solution which would hopefully be acceptable to shareholders and to the other stakeholders, that might come on the agenda.

19. **Cancellation of dividend**

- (a) The Board was asked why it had declared an interim dividend to be paid on 26th October 2007 and then subsequently cancelled the dividend, and whether the dividend would be paid in the future.
- (b) Michael Queen responded that the dividend was declared at a time when the financial position of the Company was very different to that which existed at the point of time at which the Board had to pay the dividend. Based on advice, the Board took the decision that it was obliged to cancel the dividend. Whether a dividend would be paid in the future would depend entirely on the performance of the Company and the Board would make a dividend recommendation at the appropriate time for shareholders to vote on at an Annual General Meeting. So shareholders would have the opportunity to determine whether one was actually paid or not.

E. Miscellaneous

20. **Re-ordering the resolutions**

- (a) It was asked whether shareholders could vote on resolutions 5-9 before voting on resolutions 1-4.
- (b) The Chairman responded that resolutions 1-4 would be voted on first because they were the reason for the EGM. Resolutions 5-9 were required by the Company's Articles of Association and would be voted on second.

21. **Sale of mortgages to JP Morgan**

- (a) The question was raised as to whether JP Morgan had been given guarantees that it would suffer no capital or revenue loss on the 'Lifetime' mortgages purchased from the Company in January 2008. The costs associated with servicing the mortgages were also asked about.
- (b) The Chief Executive responded that the sale of mortgages to JP Morgan was at a premium of £50 million (i.e. 2.25% of their aggregate book value) in what was still an extremely difficult market. The sale was made on normal market contract terms. It enabled the Company to reduce immediately the loan it had with the Bank of England. Further, the transaction was structured so that the Company was remunerated for administering the loans, which was taking place in the North East and involved Northern Rock staff. The Chief Executive also noted that the Company was currently building a new 'Lifetime' mortgages book.

22. **Deposit Base**

- (a) The amount of current deposits with the Company was requested.
- (b) The Chairman replied that this was highly sensitive commercial information the disclosure of which would not be in shareholders' interests.

23. **'Together' mortgages**

- (a) The Board was asked why the Company continued to offer mortgages, in some cases based on self-certified income, with loan-to-value (*LTV*) ratios of up to 125%.
- (b) The Chief Executive explained that the Company's 'Together' mortgage, which was a product the Company had been offering since 1999, allowed people to borrow in excess of 95% LTV. It had helped an enormous number of people get on the housing ladder and was considered a very important product for first-time home buyers. The product was underwritten on stringent conditions and self-certified income was not accepted. The Chief Executive stressed that the Together mortgage was a well controlled product — as of June 2007 it had average arrears well below the arrears performance of other UK banks — and its continued sale had in no way contributed to the Company's present difficulties.