

8 December 2009

### Guarantee Arrangements - BCo

#### **Guarantee arrangements to continue to safeguard wholesale and retail deposits following the restructuring of Northern Rock**

In February 2009, the Chancellor of the Exchequer announced that the business of Northern Rock would be restructured, subject to state aid approval from the European Commission. That approval was received on 28 October 2009.

The legislation to give effect to the restructuring was laid before Parliament today and the restructuring will take place on 1 January 2010, and will result in the business of Northern Rock being split between two separate legal entities:

- a new company, to be re-registered with the name '**Northern Rock plc**' and regulated by the Financial Services Authority, to which will be transferred Northern Rock's retail and wholesale deposit business (other than certain wholesale deposits held on behalf of Northern Rock's Granite securitisation and covered bond programme), a proportion of its unencumbered mortgages and its mortgage origination and servicing platform; and
- the legal entity currently called Northern Rock plc, to be re-named '**Northern Rock (Asset Management) plc**', which will retain the balance of Northern Rock's mortgage book (including mortgages allocated to the Granite securitisation and the covered bond programme), the Government loan, its other borrowings, derivatives and certain wholesale deposits held on behalf of its Granite securitisation and covered bond programme.

This announcement concerns only guarantee arrangements to be put in place relating to the new company referred to above. In the following paragraphs, the new company is referred to as "**Northern Rock plc**" and the legal entity currently called "**Northern Rock plc**" is referred to as "**Northern Rock (Asset Management) plc**".

HM Treasury will put in place, with effect from 1 January 2010, guarantee arrangements to continue to safeguard retail and wholesale deposits which will be transferred to Northern Rock plc pursuant to the restructuring. Certain wholesale borrowings and derivatives will also be covered by these guarantee arrangements.

Arrangements have been put in place to ensure that Northern Rock plc will pay an appropriate fee for the provision of these guarantee arrangements in order to ensure it does not receive a commercial advantage.

Separate guarantee arrangements will be put in place in respect of certain liabilities which will be retained by Northern Rock (Asset Management) plc pursuant to the restructuring. These guarantee arrangements are announced in a separate announcement by the Chancellor of the Exchequer today.

## Notes for editors

### Technical note:

1. These notes set out in further detail the guarantee arrangements announced today by HM Treasury which will, with effect from 1 January 2010 continue to safeguard certain borrowings and derivative transactions of, and wholesale and retail deposits held in accounts with, Northern Rock plc.
2. All retail deposits held in accounts with Northern Rock plc from time to time (including fixed term retail deposits – see paragraph 3 below for further details) will be guaranteed. These guarantee arrangements cover interest payments on those accounts and movements of funds between, and new deposits into, those accounts.
3. HM Treasury will ensure that all fixed term retail deposits, and any accumulated interest on them, will be guaranteed to the maturity of the fixed term.
4. The guarantee arrangements relating to retail deposits set out in this announcement will supplement, and not replace, any compensation provided to retail depositors by the Financial Services Compensation Scheme.
5. All unsecured wholesale deposits held from time to time in accounts with Northern Rock plc which exist immediately after the restructuring becomes effective on 1 January 2010 (the “**relevant time**”) and all unsecured and unsubordinated wholesale borrowings of Northern Rock plc (excluding fixed term wholesale deposits and borrowings) which exist as at the relevant time will, to the extent that such amounts fall due on or before 31 December 2010, be paid or repaid (as applicable) when they fall due. These guarantee arrangements cover interest payments on those accounts and borrowings and movements of funds between, and new deposits into, those wholesale deposit accounts.
6. HM Treasury will ensure that all unsecured fixed term wholesale deposits and unsecured and unsubordinated fixed term wholesale borrowings existing as at the relevant time, and any accumulated interest on them, will be repaid when they fall due. These guarantee arrangements will not apply to the extent that such wholesale deposits and borrowings are renewed, extended or increased in amount after the relevant time.
7. HM Treasury will ensure that all unsecured and unsubordinated wholesale borrowings raised through Northern Rock plc's euro commercial paper and certificate of deposit programmes after the relevant time and any accumulated interest on them will, to the extent that such amounts fall due on or before 31 December 2010, be repaid when they fall due.
8. HM Treasury will ensure that all amounts owing by Northern Rock plc in respect of unsecured swap and derivative transactions existing as at the relevant time (and, in the case of any such transactions which are novated from Northern Rock (Asset Management) plc to Northern Rock plc, whether such novation takes place before or

after the relevant time) will, to the extent that such amounts fall due on or before 31 December 2010, be paid when they fall due.

9. Where Northern Rock plc or the counterparty of Northern Rock plc may lawfully set off amounts owed by Northern Rock plc against amounts owed by the counterparty to Northern Rock plc or is entitled for any other reason to exercise rights of set-off or similar rights, the guarantee arrangements will apply in respect of the net amount.
10. For the purposes of these guarantee arrangements, wholesale deposits includes, without limitation, all deposits made in accounts held with Northern Rock plc by the following depositors: banks, building societies, investment managers, fund managers, unit trusts, money market funds, insurers, pension funds, companies, central and local governmental bodies, supranational authorities and agencies, educational institutions, charities and non-profit institutions, partnerships (including limited liability partnerships), sole traders, housing associations and unincorporated associations.
11. Retail deposits means all deposits made in accounts held with Northern Rock plc by retail customers that are not wholesale deposits.

#### **Exclusions from scope**

12. The scope of the guarantee arrangements means they will not extend to, amongst others, the following liabilities of Northern Rock plc:
  - any secured wholesale borrowings;
  - any collateralised swap or derivatives transactions;
  - any swap or derivatives transactions entered into between Northern Rock (Asset Management) plc and Northern Rock plc;
  - repurchase and securities lending transactions and other transactions involving the creation of an economic effect equivalent to a security interest (with the exception of rights of set-off);
  - subordinated or other hybrid capital instruments; and
  - liabilities of Northern Rock plc which are not in respect of borrowing or financial indebtedness, for example trade creditors, salary payments to employees and tax liabilities.

#### **Continuation of these guarantee arrangements**

13. HM Treasury will not terminate the guarantee arrangements set out in this announcement (whether or not they are expressed to be limited in duration) without first giving reasonable notice, which will not be less than three months.