

8 December 2009

Guarantee Arrangements - ACo

Replacement guarantee arrangements to continue to safeguard certain liabilities of Northern Rock (Asset Management) 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 legal entity currently called Northern Rock plc, which will be referred to as "**Northern Rock (Asset Management) plc**" in the following paragraphs.

HM Treasury will put in place, with effect from 1 January 2010, replacement guarantee arrangements to continue to safeguard certain borrowings and derivative transactions of, and certain wholesale deposits held in accounts with Northern Rock (Asset Management) plc, in each case existing immediately after the transfer becomes effective on 1 January 2010 and which will not be transferred pursuant to the restructuring.

Guarantee arrangements, announced separately by the Chancellor of the Exchequer today, will be put in place in respect of wholesale and retail deposits and other borrowings of Northern Rock which will be transferred pursuant to the restructuring to the new company referred to above.

The guarantee arrangements will replace all guarantee arrangements previously announced by HM Treasury in respect of the liabilities of Northern Rock. This announcement is notice that those previously announced guarantee arrangements will terminate three months from today on 9 March 2010.

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

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 Northern Rock (Asset Management) plc. Certain wholesale deposits of Northern Rock (Asset Management) plc's group undertakings and affiliates held in accounts with Northern Rock (Asset Management) plc are covered by these guarantee arrangements, as described below.
2. HM Treasury will ensure that all unsecured and unsubordinated borrowings of Northern Rock (Asset Management) plc (other than Northern Rock (Asset Management) plc's covered bonds and the deposits referred to in paragraph 4 below) existing immediately after the restructuring becomes effective on 1 January 2010 (the "**relevant time**") and any accumulated interest on them, will be paid or repaid (as applicable) when falling due. The guarantee arrangements also cover unsecured swap and other derivative contracts entered into by Northern Rock (Asset Management) plc and which are existing as at the relevant time.
3. In respect of Northern Rock (Asset Management) plc's covered bonds, HM Treasury will ensure that all amounts owing by Northern Rock Covered Bond LLP under its guarantee of Northern Rock (Asset Management) plc's obligations under the covered bonds are paid when they fall due. The guarantee arrangements will only be terminated upon reasonable notice, which will not be less than three months. The terms of the guarantee arrangements in respect of the covered bonds are currently under review with the objective of sustaining and supporting the credit rating of the programme. A further announcement will be made in due course following conclusion of that review.
4. HM Treasury will ensure that all unsecured wholesale deposits from time to time made by group undertakings and affiliates of Northern Rock (Asset Management) plc and held in accounts with Northern Rock (Asset Management) plc existing as at the relevant time and any accumulated interest on them, will be paid or repaid (as applicable) when they fall due.
5. Where Northern Rock (Asset Management) plc or the counterparty of Northern Rock (Asset Management) plc may lawfully set off amounts owed by Northern Rock (Asset Management) plc against amounts owed by the counterparty to Northern Rock (Asset Management) plc or is entitled for any other reason to exercise rights of set-off or similar rights, payments under these guarantee arrangements will apply in respect of the net amount.

Exclusions from scope

6. The scope of the guarantee arrangements means they will not extend to, amongst others, the following liabilities:
- securities issued pursuant to Northern Rock (Asset Management) plc's "Granite" securitisation programme;
 - any secured borrowings;
 - any collateralised swap or derivatives transactions;
 - any swap or derivatives transactions entered into between Northern Rock (Asset Management) plc and the new company to be re-registered Northern Rock plc on the restructuring;
 - 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 (Asset Management) 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

7. The guarantee arrangements set out in this announcement will continue until the wind down of Northern Rock (Asset Management) plc is completed. For these purposes, the period of the wind down will extend until all liabilities covered by these guarantee arrangements are paid or repaid (as applicable).