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Press Release

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UKFI announces agreement to sell Northern Rock to Virgin Money

Following the statement today by the Chancellor of the Exchequer, UK Financial Investments Ltd (“UKFI”) announces that HM Treasury has agreed to sell 100% of the share capital of Northern Rock plc (“Northern Rock” or the “Company”) to Virgin Money Holdings (UK) Limited (“Virgin Money”). The Government will receive £747 million cash on completion with the potential in the future to receive over £1 billion in total.

Total consideration comprises:

- Cash of £747 million on completion and a further expected c. £50 million cash within six months
- Tier 1 Capital Notes of £150 million
- Additional cash consideration of £50 million to £80 million receivable upon a future profitable IPO or sale in the next 5 years

A full range of options was analysed for the return of Northern Rock to the private sector and a sale of the Company was considered to be the option that would maximise value for the taxpayer. Today’s announcement represents the outcome of the sale process led by UKFI working closely with the Board of Northern Rock.

Keith Morgan, Head of Wholly Owned Investments at UKFI, said “This sale revitalises Northern Rock by combining it with Virgin Money’s complementary business. It creates a new retail banking competitor with four million customers, bringing additional choice to the UK market and securing jobs in the North East. The deal returns Northern Rock to the private sector and maximises value for taxpayers.”

Ron Sandler, Executive Chairman of Northern Rock, said “The return of Northern Rock to the private sector has always been one of our key objectives. We said that this would be done at the right time and when there was a proposition in the best interests of taxpayers and other stakeholders. I am delighted that we have reached an agreement with Virgin Money which successfully delivers that. It is a very positive outcome for the Company following a significant restructuring process. In addition to delivering value for taxpayers, it brings good news for colleagues, customers, jobs in the North East and the Northern Rock Foundation.”

The sale creates a new competitor in UK retail banking. Virgin Money has made a number of commitments relating to the acquisition:

- There will be no compulsory redundancies beyond those already announced by the Company for at least three years from completion.
- The total number of Northern Rock branches will be retained, and in due course extended as the business' growth allows.
- The combined business will compete strongly in the UK retail savings and mortgage markets – launching current accounts in 2013 and, in due course, lending to small businesses.
- The operational headquarters of Virgin Money will be based in Newcastle.
- Upon completion, Northern Rock's current commitment to the Northern Rock Foundation will be extended immediately, in respect of Northern Rock's existing business, to the end of 2013. This gives Virgin Money and the Northern Rock Foundation time to agree how they will work together after that.

Northern Rock was taken into temporary public ownership in February 2008. UKFI has been responsible for the Government's 100 per cent shareholding in Northern Rock since its formation on 1 January 2010 when the former Northern Rock was split into two companies:

- Northern Rock plc, which is being sold, is a savings and mortgage bank that is regulated as a deposit taker and mortgage lender by the FSA, offering new savings products and new mortgage lending. The net asset value of the Company at 30 June 2011 was £1.122 billion; and
- Northern Rock Asset Management ("NRAM"), which remains under 100 per cent ownership of the Government, holds a closed mortgage book of residential mortgages and unsecured loans. Since 1 January 2010 NRAM has returned more than £2 billion to the taxpayer and created c. £1 billion of further taxpayer gain through debt repurchases.

The transaction remains subject to approval by the Financial Services Authority and receiving European Commission merger clearance. Completion of the transaction is expected on 1 January 2012.

Deutsche Bank and Freshfields Bruckhaus Deringer advised UKFI and Northern Rock plc on the transaction.

Ends

Notes to editors:

Total consideration comprises:

- Cash: HM Treasury will receive cash of £747 million on completion and an expected further c. £50 million cash in Q2 2012 relating to the net asset value of the Company at completion.
- Tier 1 Capital Notes: Virgin Money will issue to HM Treasury on completion Tier 1 Capital Notes (“Notes”) with a par value of £150 million and an annual coupon of 10.5%. The terms of these Notes have been designed to be compliant with current GENPRU requirements and the expected requirements of forthcoming CRD4 regulations which will implement Basel III guidelines into European law. Accordingly they include features such as principal loss absorption and discretionary interest coupons. Virgin Money has indicated that it intends the Notes would be exchanged, or purchased by the acquirer, upon an IPO or sale, without reducing the amount and quality of the firm's capital resources, which would allow HM Treasury to exit its investment.
- Additional cash consideration: HM Treasury will receive additional cash consideration payable upon Virgin Money delivering a future profitable IPO or sale in the next 5 years. The maximum payment would be £80 million if this occurred in 2012; £70 million in 2013; and £50 million in 2014 to 2016 inclusive.

About UKFI:

UKFI is responsible for managing the Government’s shareholdings in The Royal Bank of Scotland Group plc and Lloyds Banking Group plc, collectively the “Market Investments”. UKFI is also responsible for managing the Government's 100 per cent shareholdings in Northern Rock plc and UK Asset Resolution Ltd (which was formed during 2010 to integrate the activities of Northern Rock (Asset Management) plc and Bradford & Bingley plc), collectively the “Wholly-Owned companies”.

UKFI’s overarching objective is to manage these shareholdings commercially to create and protect value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the Government’s investments in an orderly and active way over time within the context of protecting and creating value for the taxpayer as shareholder and where applicable, as provider of financial support, paying due regard to the maintenance of financial stability and acting in a way that promotes competition.