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Northern Rock plc

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1. The Government has today decided to bring forward legislation that will enable Northern Rock plc to be taken into a period of temporary public ownership. The Government has taken this decision after full consultation with the Bank of England and the Financial Services Authority. The Government's financial adviser, Goldman Sachs, has concluded from a financial point of view that a temporary period of public ownership better meets the Government's objective of protecting taxpayers.

2. Northern Rock will be open for business as usual tomorrow morning and thereafter. Branches will be open; internet and call centre services will operate as normal. All Northern Rock employees remain employed by the company. Depositors' money remains absolutely safe and secure. The Government's guarantee arrangements remain in place and will continue to do so. Borrowers will continue to make their payments in the normal way. The Financial Services Authority have advised that Northern Rock remains solvent.

3. The Government set out its objectives last year that would guide its actions in relation to Northern Rock: the protection of depositors' money; protection of the taxpayer; and maintaining wider financial stability.

4. The Government has consistently and successfully taken action to meet these objectives. Last year the Government agreed to provide support to Northern Rock because, in the prevailing market conditions, there was a serious risk that other parts of the banking system in Britain could have been destabilised. That support was successful and prevented further contagion. The Government was also determined to safeguard depositors' money and took action to put in place arrangements which have been successful in doing so. None of the guarantees have been called and therefore there has been no cost to the taxpayer.

5. While in September and October uncertainty in the market place made it difficult to attract potential buyers for Northern Rock, in November and December the board of Northern Rock received a number of expressions of interest. The Government decided to test these proposals. However, it became clear that no institution was prepared to make an offer for Northern Rock without some form of public support because of prevailing market conditions.

6. The Government was, therefore, prepared to consider a backstop guarantee arrangement to allow the Board and shareholders to explore a private sector solution, provided the terms and conditions were acceptable and met the principles set out by the Government. In the meantime, the Chancellor made clear that a temporary period of public ownership remained an option, and that any solution would need to represent good value for money for the taxpayer.

7. Two detailed private sector proposals were received: one from the Virgin Consortium and the other, a Northern Rock led restructuring plan. These were considered alongside temporary public ownership.

8. The Government is very grateful to the bidders for their work to establish whether a private sector-led solution on acceptable terms could be found.

9. Both proposals involve a degree of risk for taxpayers and very significant implicit subsidy from the Treasury, involving a payment below the market rate to the Government for continuation of its guarantee arrangements and for the financing the Government would be putting in place.

10. Each proposal has pros and cons. The Virgin proposal would have brought a new brand and management. However, the taxpayer would only have seen any share of the private sector's return if the value of the business to its investors had reached at least £2.7bn.

11. The Board's proposal would have involved a similar level of subsidy. But it had other disadvantages, compared with Virgin, including: it would bring in less new capital, providing less "buffer" protecting the taxpayer from risk; and the business would have been dependent on Government guarantees for new retail deposits for longer.

12. A subsidy on the scale required would not, in the Government's judgement, provide value for money for the taxpayer, in circumstances where the private sector rather than the taxpayer would secure the vast majority of the value created over the period ahead. This would be a poor reflection of the balance of risk borne by the two sides.

13. By contrast, under public ownership the Government will secure the entire proceeds from the future sale of the business in return for bearing the risks in this period of market uncertainty.

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14. The Government has concluded that the private sector alternatives do not meet the test of protecting the taxpayer's interest, when compared with the alternative. Accordingly, and taking all the wider considerations into account, the Government has concluded that the right approach is to take the company into a period of temporary public ownership.

15. It is also the Government's clear assessment that, under the approach the Government is taking, the taxpayer will see its outstanding loans to Northern Rock repaid in full, with interest - and that the business can and will be returned to the private sector as financial markets stabilise.

16. Tomorrow, before the markets open, it is expected that the UK Listing Authority will announce that Northern Rock's shares will be suspended from listing prior to the opening of the London Stock Exchange.

17. The Government will tomorrow also introduce a Bill that will enable the bank to be brought into temporary public ownership. Full details will be provided to Parliament.

18. The legislation will enable the Government to acquire the bank's shares. It will provide for compensation to be determined by an independent valuer. It will allow for the running of the bank and for the eventual transfer back into the private sector as soon as it is right to do so.

19. The Bill gives the Government a general power to acquire the shares in, or assets and liabilities, of institutions. But the Government is clear that this legislation is only being introduced now because there is a need to bring Northern Rock into temporary public ownership.

20. The Bill has deliberately been drafted to ensure that a bank can only be acquired in certain tightly defined circumstances. And that power will only last for twelve months. The Chancellor has previously announced a consultation which will lead to permanent legislation to deal with situations like this in the future.

21. Northern Rock will be managed on arms' length terms, as a commercial entity, by a newly appointed experienced and professional management team.

22. The Government has appointed Ron Sandler CBE, former Chief Operating Officer of NatWest Group and Chief Executive of Lloyd's of London, who will be Executive Chairman of the company immediately upon the legislation coming into force. Mr Sandler will in due course recruit a new Chief Executive, at which point he will become Non-Executive Chairman.

23. Ann Godbehere, former Chief Financial Officer of Swiss Re, will be appointed as Chief Financial Officer of the company for the initial phase of public ownership.

24. Subject to the passing of the Bill, the Treasury intends to make an Order which would transfer all of the shares in Northern Rock to the Treasury Solicitor, as the Treasury's nominee. The Order would also, among other things, extinguish the existing share options; convert the foundation shares to ordinary shares and terminate the existing Foundation deed; make limited technical adjustments to the provisions of certain Tier 1 securities; provide for the rights or obligations of lenders, bondholders, swap counterparties or suppliers which would be triggered by the act of bringing Northern Rock into temporary public ownership not to be triggered; facilitate board changes; deal with the issue of liability of those directors appointed to or continuing on the board of Northern Rock whilst it is in public ownership; modify the application of certain provisions of the Financial Services and Markets Act 2000 to the company; and disapply shadow directorship provisions to specified public sector persons. A separate Order would be made which would set out the detail of a compensation scheme called for under the Bill.

Notes to editors

1. It is expected that the company's ordinary and preference shares will be suspended from listing tomorrow prior to the opening of the London Stock Exchange. The company's debt securities, which are not being transferred, will continue to trade.

2. The suspension of shares will have no effect on the rights or obligations of lenders, bondholders, swap counterparties or suppliers to Northern Rock, except for modifications principally aimed at ensuring that arrangements continue as before and that no counterparty triggers additional payments in public ownership.

3. The Northern Rock Foundation will be guaranteed a minimum income of £15m per year in 2008, 2009 and 2010. This will be paid directly by Northern Rock, and would be a condition of any sale if it were sold in this time. The new board will be asked to identify a viable long-term future for the foundation.

4. The proposed legislation provides for the assessment by an independent valuer of compensation which may be payable to any holder of shares transferred to HM Treasury. The principles for assessing compensation, set out in the legislation, reflect that Government should not be required to compensate shareholders for value which is dependent on taxpayers' support. A compensation order will be made under the legislation setting out some further details of the arrangements for compensating shareholders and others whose rights may have been affected by the transfer into public ownership. The independent valuer will set their own, more detailed, procedures.

5. The FSA has confirmed that Mr Sandler and Ms Godbehere are suitable persons to direct the business.

6. Ron Sandler, CBE, has over two decades of experience in the financial services industry. He was Chief Executive of Lloyd's of London from 1995-1999. In 1999 he became Chief Operating Officer of NatWest Group up to its takeover by Royal Bank of Scotland. He currently chairs a number of companies. In 2002 he led a Government-sponsored review of the UK Long Term Savings Industry, which led to the creation of a new suite of simplified, lower cost savings and pension products for consumers. He has an MA from Queens' College, Cambridge and an MBA from Stanford University.

7. Ann Godbehere has extensive experience of the financial services sector having moved to London as Chief Financial Officer of Swiss Re Life & Health Division in 1998 and joined the Property & Casualty Business Group, based out of Zurich, as Chief Financial Officer on its establishment in 2001. In 2003 she was appointed Chief Financial Officer of the Swiss Re Group. Ann has also been an independent non-executive director of Prudential since 2 August 2007.

8. Ron Sandler will receive £90,000 per month and Ann Godbehere will be paid £75,000 per month. These are flat rates. No additional incentives will be discussed until the new board has discussed its business strategy with the Government.

9. Media enquiries should be addressed to Stephen Field and John Battersby at the Treasury Press Office on 020 7270 5238.

10. Non-media enquiries should be addressed to the Treasury Correspondence and Enquiry Unit on 020 7270 4558, or by email to public.enquiries@hm-treasury.gov.uk

11. Customers of Northern Rock wishing to contact the company should call 0845 600 7301 or visit <http://www.northernrock.co.uk/>

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