

**NORTHERN ROCK plc**  
**Extraordinary General Meeting, 15 January 2008**  
**Chairman's Speech**

*The following is a statement given by Bryan Sanderson, Chairman, Northern Rock plc, at the Extraordinary General Meeting ("EGM") held at Metro Radio Arena, Newcastle upon Tyne, on Tuesday, 15 January 2008.*

Good morning, ladies and gentlemen. It is now 10 o'clock and on behalf of my colleagues on the Board, I am pleased to welcome you to Northern Rock's EGM. It is very good of you to turn out on such an awful morning. There is a quorum present and so I would like to begin.

There has been considerable public interest in our Meeting — I need hardly tell you that — and I take it no one objects to my allowing various interested parties to attend, including representatives of the Press who are up there somewhere.

I am Bryan Sanderson, Chairman of Northern Rock. I would like to start by introducing my colleagues.

From the left, as you look at us, is Laurie Adams, Non-Executive Director. Then Dave Jones, our Group Finance Director. Next to him is Sir Ian Gibson, Senior Independent Director and Chairman of the Remuneration Committee, and then our Secretary, Colin Taylor.

On my left you have Andy Kuipers, the Company's Chief Executive, then Michael Queen who is Chairman of our Audit and Risk Committees. Next to him is John Devaney, Non-Executive Director and then Simon Laffin, Non-Executive Director.

I would like to welcome you all to the Metro Radio Arena. As those of you who have attended past general meetings of the Company will know, this is a rather larger venue than we have previously used. In the time available to us to prepare for today's Meeting we had a somewhat limited set of options and, in any case, took the view that this Meeting might attract larger numbers than previous events and so we decided to invite you to what is a very central and well-known Newcastle location.

One final housekeeping point which is important: we do not expect emergencies, of course, but if an emergency should occur, there are exits on all sides of the arena which are clearly signposted.

If it is necessary to evacuate the building, the Meeting will be adjourned and an evacuation announcement will be made. Please follow the instructions of the safety stewards who will direct you to the nearest exit. They are wearing blue blazers and will identify themselves to you if the situation arises.

As we explained in the circular we sent to shareholders just before Christmas, this Meeting has been convened at the behest of the two largest shareholders in the Company — SRM and RAB Capital — both of whom are here. They have tabled four resolutions for your consideration which I will come to shortly. As a result of having to hold this Meeting, under the Articles of Association of your Company, the

appointment of those Directors who have joined the Board since the last AGM must be considered by you, the shareholders. All of the relevant resolutions are set out in full in the Notice of Meeting contained in the circular which, with your approval, I would like to take as read. Okay? (Pause) Thank you.

Before moving to the formal business of the Meeting, I thought I would take this opportunity to update you on the progress of our strategic review. I will then pause to allow you to ask questions on the business of the Meeting. With regard to the question and answer session, you have been invited to register questions at the question registration desks and those who have will have been asked to take a seat at one of the question points. Members or their proxies who wish to ask a question, and have not yet registered it, may do so now at one of the desks here in the auditorium.

These arrangements are in place to make the whole process run as fairly and efficiently as possible.

Your questions and views are important to us and we will of course listen to what you have to say. To ensure fairness, I will ask you to limit yourselves to one question initially and I will allow as much time as possible for questions to be asked and answered, but my plan would be to commence voting on the various resolutions not much later than about 12.30. That should be adequate time.

I would also like to remind you that pre-registered questions will be answered first. If there is time, we will then move on to questions from the floor. If you do not pre-register a question, it is very unlikely that there will be time to answer it. The question registration desks will remain open throughout the Meeting.

We will then put the resolutions to the vote, which will be done on a poll. When you registered this morning, each member and proxy was given an electronic voting handset. If you have a pink DCR directions card, you do not require an electronic voting handset.

If anyone who should have a handset does not have one, please raise your hand and a steward will assist you. Has anybody not got a handset who thinks they should have one? (Pause) Thank you.

As you will see, following the Company's well-publicised difficulties in the autumn, we have before you a very different Board from that which attended the last AGM.

Since then, the former Chairman, four Non-Executive Directors, the CEO, the Deputy CEO and the Treasurer have resigned from the Board and we have added three new Non-Executive Directors and me as Chairman.

The only continuing Non-Executive Directors are Sir Ian Gibson and Michael Queen. Andy Kuipers, recently appointed CEO, and Dave Jones are the remaining Executive Directors on the Board. The continuing Directors need no further introduction to you, but I would like to thank them all for the enormous contribution they have been making in helping the Company to steer a path through its current difficulties and provide an essential chord of continuity in all this.

I joined the Board in October. Most of my background, as I think you know, is with British Petroleum where I was a director for ten years. I would also like to introduce you to the other three new Directors. First, John Devaney who, amongst other appointments, has been the Chairman of NATS since 2005 and is also Chairman of Telent plc (previously Marconi Corporation plc). John steered Telent through its re-listing in January 2003, the UK's largest ever recapitalisation. He has also held non-executive directorships with Midland Bank and British Steel. John brings a wealth of very relevant experience to the Board.

Secondly, Simon Laffin, who is an industrial adviser to CVC Capital Partners, specialising in retail and consumer services. He started working with CVC in December of 2004. Prior to this, he was Chief Financial Officer and Property Director of Safeway for ten years. Mr Laffin is a qualified accountant.

Thirdly, Laurie Adams, who is a director and major shareholder of Siblun Holdings Limited, the leading holiday park operator. He was formerly a Managing Director and Global Head of Legal and Compliance for the Investment Banking Wholesale Division of ABN AMRO Bank and previously a Managing Director and European Head of Legal and Compliance for the Wholesale Investment Banking division of Citigroup.

Between them, they add a wealth of financial weight and know-how and I am grateful to all of them for contributing their skills at this difficult time.

As is well-known, on 14th September 2007, your Company announced that it had arranged a standby line of financing with the Bank of England. This was to ensure that it had sufficient liquidity to cope with the extraordinary difficulties in the credit markets that have caused such widespread fall-out across the banking sector in the United States and Europe, and which continue unabated at the present time. Given the subsequent enormous amount of press and the coverage of the background to the announcement and the consequences that have followed, I do not propose to take up the time of the Meeting giving a detailed explanation as to how the Company got into this situation or of the aftermath, and I do not think it would be a sensible use of our time today to do so, but I do think it important to make the following key points.

Northern Rock is in a unique situation. It is a much misused, overused word "unique", which I think is true in this case. Unlike a number of banks which have been badly affected by this global credit crunch, its assets are sound. We have not had to make substantial write-downs of our asset base beyond the relatively modest provisions we have announced in relation to some of our treasury assets. Indeed, on Friday, we announced the sale of £2.2 billion of mortgage assets at a premium despite credit market difficulties. However, exacerbated by the reaction of depositors and the credit markets following the September announcement, Northern Rock has struggled to refinance its liabilities other than through the Bank of England facility extended to it in the autumn. Of course the Company also has the benefit of certain guarantees from Her Majesty's Treasury. Given the sheer size of the balance sheet, with over £100 billion of assets and liabilities, managing this situation is extremely complex. Doing so in the most difficult financial markets for many years makes this a major challenge for your Board and, let it not be forgotten, for the Company's employees.

As you will have seen from the announcements we have made already, as well as from the substantial Press commentary on the Company, there are a large number of stakeholders and other interested parties seeking to influence the outcome of the strategic review we are undertaking. Inevitably, given the legitimate public interest, it is also being conducted in the full glare of the media. The situation is very serious and it is vital that all those with an interest act responsibly, not just for the benefit of our shareholders and creditors, including UK taxpayers, but all our stakeholders, especially our staff. A satisfactory outcome to this crisis is vital to preserving Northern Rock as the North East's most important private sector employer and benefactor and as a beacon of an emerging financial services sector in this region. It is also, of course, important to maintain the UK's reputation as a centre of financial excellence.

Reliant as we are on the continuing support of the Bank of England and Her Majesty's Treasury to be able to continue to trade, everyone must recognise that the wider interest of the UK cannot be ignored in seeking an outcome to our predicament. It may not be palatable to some of us but it is nevertheless true that to promote the success of Northern Rock we need their continuing support and must take into account their interests in seeking to find the right outcome to this strategic review. Some shareholders have said that the Board should take a much tougher line with Her Majesty's Treasury and the Bank of England — 'call their bluff' I think is the expression that has been used. I would hope that sensible shareholders would appreciate that a high stakes poker game would neither be a proper discharge by the Directors of their duties nor a wise course of action for the shareholders. The Tripartite Authorities, being Her Majesty's Treasury, the Bank of England and the Financial Services Authority, will have to decide whether to support our proposed outcome to the strategic review against their published objectives. As the Chancellor recently announced, the objectives of the Tripartite Authorities include the need to protect taxpayers, to promote financial stability and to protect consumers. Shareholders in a private sector company have no right to expect them to put taxpayers and consumer interests behind those of shareholders. We have undertaken to explore the full range of strategic options available, including any proposals to meet Northern Rock's liabilities to the public sector without any change in ownership of its business or its assets. The Tripartite Authorities will also take into account the timing and certainty of execution of any proposal that we put to them. The art of the possible in our strategic review will also be constrained by the application of any EU state aid requirements (determined in Brussels) to any continuing financial support from the Tripartite Authorities beyond March of this year.

Those important points made, I propose to give you as much information as I am currently able to disclose on what we are doing to deal with the Company's predicament. The timing of this Meeting was obviously not of our choosing, since it was called at the behest of SRM and RAB Capital, as is their right. It occurs at a time when we are still actively pursuing our strategic review and when we are significantly constrained by confidentiality and other legal requirements in relation to the information we are able to provide to you. I would ask shareholders for their understanding in relation to these constraints. In effect, I am reporting to you on work in progress. So what have we been doing?

First, we need objectivity and wisdom so I have gathered a group of experienced and well-motivated individuals on to the Board who, importantly, have no financial incentive other than their fee. They have joined the Board only because they want to help and are prepared to take on the enormous challenge which sorting out Northern Rock represents.

Secondly, I have added a specialist restructuring advisory team from Blackstone to bring a different dimension to the work being done by our other financial advisers, Citigroup and Merrill Lynch. All of them represent a talented, hard-working and powerful team.

Thirdly, as we have publicly announced, we have, over recent months, been conducting a wide-ranging strategic review. The review has been conducted in a financial world that looks more insecure than for many years. There could not be a worse time. It is the worst time for 15 years. Credit is extremely hard to come by as the large banks suffer from the unfolding of the sub-prime crisis and severely cut back their lending activities. They are also seeking better security for the money they do advance and looking for higher returns. They have, in short, become much more risk-averse. As part of our review, we have explored options involving the sale of the whole Company, substantial investments in it by strategic investors, the sale of all or part of its assets and liabilities, as well as various alternatives based on a stand-alone solution. We have also been seeking to identify any material source of debt finance available to help us refinance the Bank of England facility. In this process we have targeted institutions from all around the world. The process has been thorough and painstaking, and for those reasons somewhat time-consuming. It has been important because we have had to assure our key stakeholders that we are exploring every possible avenue as part of our strategic review. We have also had to bear in mind that we may be called to justify our approach at some future date to bodies such as the Treasury Select Committee. Accordingly, this has been a wide-ranging process involving public sector style elements. As you will also be aware, what we have been doing has inevitably attracted enormous public interest through the Press. As a result, we have had to be doubly sure that we are able to justify every move we have made.

Finally, as you would expect, we have, as part of this exercise, spent considerable time analysing the Company's business, both to make sure your new Board fully understands its strengths and weaknesses and to identify what the business should look like in the changed financial environment that now exists. We believe, as do others — almost everybody who is involved in the Company — that the Company's assets are very good and its operating management is very solid. The Company's weakness was its financing model, which, although it enabled the Company to deliver excellent returns to shareholders over many years, was insufficiently robust to withstand the current extraordinary liquidity crisis which has taken place. We also have a group of employees whose morale is, in the circumstances, very good. We have benefited from a typical Geordie "backs to the wall" reaction to adversity. You should be grateful to the employees of Northern Rock who have continued to work extremely professionally in these difficult times and despite all the adverse publicity the Company has attracted.

The principal challenge we continue to face in identifying an outcome to the review is how best to refinance the substantial liability we now have to the Bank of England, given the continuing severe difficulties in the credit markets. These difficulties have considerably narrowed the options available to us at this time. We have not received any offer for the whole Company that offered significant value for shareholders. Given its particular business, a sale of a substantial part of the Company's assets and liabilities is far from straightforward and, as our shareholders have recognised, now is not a great time to be a seller of these sorts of assets. We are now focusing our efforts almost entirely on a small number of possible solutions — the indicative proposals, and they are still only indicative, received from the Virgin Consortium and Olivant, as well as the stand-alone alternatives. While there remain one or two other possibilities, they are at a much less developed stage and it is far from clear what will come of them. Now is definitely not the time to go into the detail of the Virgin and Olivant proposals. If and when we decide to proceed with one of them, on the basis of their current structure, we will of course bring it to you, the shareholders, for approval. You need have no doubts about that. There remains a substantial amount of work to be done to see which of the options we are considering are realistically achievable. We will then need to decide what is best for you, the shareholders, and our other stakeholders. We have a clearly stated timetable and we are working within that.

Given the Company's position, while we obviously have the interests of all our shareholders (large and small) very much at the forefront of our thinking, we are unable to ignore the interests of our other stakeholders. This is a legal point.

Under the Companies legislation, your Board is now explicitly required to take into account, in assessing what is most likely to promote the success of the Company for the benefit of its members as a whole, the interests of its employees and the need to foster the Company's business relationships with suppliers, customers and others (as well as certain other matters). As we explained in the circular, we are required to consider carefully how these interests interrelate and what weight to apply to them. We have also been advised that, in the circumstances we are in, we must also have regard to the position and interests of the Company's creditors and, if there is a serious risk of the Company's failure, a duty to avoid or minimise their loss. As I have mentioned, at the present time the Company is reliant on the continuing support of the Bank of England and Her Majesty's Treasury to continue to trade and for that reason also needs to take account of the views of the Tripartite Authorities. So it is very complicated. But all of that said, your Board is very focused on finding a solvent solution for the Company's future.

We, as a Board, are committed to exhausting every possible avenue of investigation for the best option we can find for you, the shareholders, our creditors, employees and other stakeholders. We cannot reverse history, but with your support we can set the Company on the road to recovery.

We originally targeted to conclude our strategic review by February of this year. There were other dates put forward, but not by the Board or its advisers. We are still on track to do so. While I hesitate to be too precise on dates by which I expect to be able to announce the outcome of the review, in my own mind I have targeted mid-February. You must understand that there remain substantial challenges still in

finding a solution and, as these involve third parties, timing is not entirely under our control.

I am very conscious that the collapse in the Company's share price since this time last year has caused a lot of pain for our shareholders. I assure you that we are doing all that we reasonably can, consistent with our duties, to look after the interests of shareholders and we have you at the top of our minds on all occasions.

So, turning to the business of the Meeting, I mentioned at the outset that two shareholders have tabled four resolutions for this Meeting to consider. I do not at this stage propose to outline in detail the effect of the resolutions if passed, as we have set this out in the circular. But, in short, they would, in the view of the Board, materially restrict its ability to issue shares or sell assets of the Company at a time when it may have an urgent need for liquidity. Your Board considers that the restrictions in the resolutions give rise to real risks: they are widely drawn. We could find ourselves unable to take rapid action to enter into negotiations or progress transactions that are in your, the shareholders', interests. Extra control may not mean better results. The restrictions also go beyond those typically applied to the boards of UK-listed companies. We believe the corporate governance framework already in place is more than adequate to protect shareholders' interests. We have also reaffirmed that, as presently structured, the indicative proposals from the Virgin Consortium and Olivant would, in any event, require your approval.

I can understand why some shareholders might want to tie the Board up on a shorter leash, but I can assure you that, from where we stand, these additional restrictions are more likely to act against their interests than to promote them. I am pleased to see that the ABI has taken this point on board and recommended that the shareholders vote against resolutions 1 to 4. For all these reasons, we have also recommended that you vote against resolutions 1 to 4 in the Notice of the Meeting and I urge you to do so.

As I have explained, five of the Directors need to be re-appointed under Northern Rock's Articles of Association if they are to continue in office. We have carefully chosen these Directors to be part of the Board because of the important skills they bring to the enormous challenge your Company faces. It would put the remaining Directors in a very difficult position if these re-appointments were not approved and I urge you to support resolutions 5 to 9 to approve their re-appointment.

That is the formal address — a very accurate description of the situation, I hope you will all agree, cleared by the lawyers, which is why it sounds like it is a translation from the German original! But let me sum up the situation in my own words, as I see it.

At times this job is like walking through a minefield between two opposing lines of fire who keep sniping at you and lobbing shells. It is very tempting to run for cover or join one side or the other, but if I and the Board do that we would not be performing our duties to promote the success of the Company and balance the interests of you, the shareholders, our creditors (including indirectly the UK taxpayers, which most of us are) our staff and the people of the North East.

We did not take this on because we wanted a comfortable life, nor did we take it on to die gloriously charging on a white horse for one side or the other in this debate. We are not going to take sides.

To those who advocate nationalisation and be damned to the shareholders, and there are lots of them around, our response is that this would be immensely damaging to the financial reputation of London and of the UK, and to the people of the North East.

To those shareholders who think it right to call the Tripartite's bluff and speak out against the Government and the Chancellor, remember the Bank of England and the FSA can withdraw their support at any time and we would not be able to continue to operate. It would be wholly irresponsible for your Board to take such a risk on your behalf. This is not a roulette game — that would be Russian roulette.

Northern Rock has been propelled into the eye of a very big storm indeed. We need patience and cool heads to find a way through in everyone's interests. With help from you we now have a Board that is determined to find that path.

Thank you for your patience. Before we move to questions, I would like to welcome representatives from RAB Capital and SRM, at whose request this Meeting has been convened, and they intend to make a short statement to you. We, as a Board, believe it is only fair and appropriate that you should have the chance to hear from the shareholders, who are being extremely supportive, and who are seeking changes set out in the resolutions 1 to 4, even though our recommendation is that you vote against these resolutions. Our disagreement is on tactics, not on the fundamentals.

Could I please ask Philip Richards of RAB Capital and Jon Wood of SRM, who bravely come from warmer climes to make their way to Question Point A. Thank you.