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Financial Stability Update

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Written Ministerial Statement

FINANCIAL STABILITY UPDATE

The Exchequer Secretary to the Treasury (Sarah McCarthy-Fry): Following the successful legal and capital restructuring of Northern Rock, which took effect on 1 January 2010, the Government, in conjunction with the Financial Services Authority (FSA), has reviewed the guarantee arrangements applying to retail deposits held with Northern Rock.

The restructuring has resulted in the formation of a strong, well-capitalised, highly liquid bank that remains in Government ownership. The bank is authorised and regulated by the FSA and customers' deposits are secure. The Government, in consultation with the FSA, has therefore assessed that it is now appropriate to give notice to remove the guarantee covering retail deposits in Northern Rock plc.

Accordingly, HM Treasury has today given three months' notice that the Government's retail savings guarantee for Northern Rock plc will no longer apply from 5 p.m on 24 May 2010. This excludes guarantee arrangements for fixed term deposits in existing accounts, which will terminate on maturity on the relevant fixed term. For fixed term products renewed or extended after today's announcement, the guarantee arrangements in respect of that deposit will terminate on the date of maturity existing prior to its renewal or extension. The guarantee for wholesale borrowings of Northern Rock plc, to the extent it relates to sums which are attributable to retail deposits made with Northern Rock (Guernsey) Limited, will also be lifted at the same time.

Following lifting of the guarantee, every Northern Rock retail customer will continue to have the first £50,000 of their total deposit protected by the Financial Services Compensation Scheme (FSCS), whether their deposit is fixed-term, non-fixed term or a combination of both. This is the same level of protection that is provided for retail customers of all banks and building societies in the UK. Customers of Northern Rock (Guernsey) will continue to benefit from the Guernsey Banking Deposit Compensation Scheme.

The guarantee applying to Northern Rock's retail deposits was put in place as a temporary measure during a period of unprecedented instability in the financial markets. It was never intended to be permanent. Today's announcement affirms the strength of the new Northern Rock plc, and is a positive step in the bank's progression towards independence. Removal of the specific Northern Rock plc retail guarantee more closely aligns Northern Rock's retail depositor protection arrangements with those of all other UK banks, an important step in the normalisation of the UK retail banking market.

HM Treasury
24 February 2010