

Exhibit E. Northern Rock's Paper: *Impact of Insolvency*

IMPACT OF INSOLVENCY

KEY ASSUMPTIONS, UNCERTAINTIES AND OUTCOMES

INTRODUCTION

Summary of procedures and activities

We have defined two scenarios for modelling. This section looks at the impact of insolvency.

There would be an immediate suspension of all commercial activities and a very rapid write-off of assets. Moratorium would apply on all creditors except duress (e.g. court actions), although aggressive set-off of claims will be asset depletive.

The group balance sheet as at 20 September 2007 has been used as a starting point against which assumptions around asset recoverability and contingent liabilities and claims have been overlaid to quantify the estimated deficit under this scenario. PwC has reviewed the outputs of this modelling exercise and will provide their observations separately on the process and assumptions.

The scenario assumes that the Bank of England provides funding during the insolvency process.

SUMMARY OF FINANCIAL OUTCOME

Asset value impact

The administration of Northern Rock would result in an impairment of the assets and liabilities of the existing business amounting to £9.3bn to £15.3bn with a mid point of £12.3bn. It is estimated that the shortfall of assets compared to amounts owed to creditors would amount to £6.4bn i.e. closing estimated cash of £46.6bn less liabilities of £53bn (excluding subordinated liabilities and Tier 1 Notes)

The loss for unsecured creditors is estimated at £2.3bn, with a loss of shareholder value of £3.6bn

Funding requirement

The maximum theoretical estimated funding requirement from the Bank of England is £51.4bn. This will not however be the maximum position as cash generated would be utilised during the insolvency process.

Material assumptions underlying the estimated shortfalls:

- Overall a 10% shortfall on mortgages compared to the current net book value
- Residual value of the securitisations at the end of their lives of £3bn allowing for repayment of the current balance on the GIC account
- 20% shortfall on unsecured loans
- No material inflation of liabilities over the current net book value
- Estimated funding requirement from the Bank of England of £51.4bn

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- On insolvency the company settles all retail and wholesale funding balances, including the GIC account
- Total figures are in the mid range of the estimated balances and may vary by +/- £2-3bn

Detailed assumptions underlying insolvency scenario

ASSETS

Cash and balances with central banks

In the event of insolvency cash balances are assumed to be realised in full and be available for use by an administrator.

Whilst in practice institutions would exercise their right of set off between accounts this has not been reflected within the balance sheet.

Derivative financial instruments

In the event of insolvency, no cash is assumed to be received from counterparties in the event of termination of the derivatives.

Loans and advances to banks

Loans and advances to banks have been assumed to be fully recoverable from the relevant counterparties, and the cash would be available either to repay other liabilities or for the general use of an administrator. To the extent that a right of set off may exist between loans and advances to banks, and loans and advances from banks this has not been recognised in the balance sheet, with both lines shown gross of any potential set off.

Loans and advances to customers

Standard residential mortgages not subject to securitisation are estimated to realise 90% of the book value as at 20 September 2007. This is based on management's estimate of the net realisable value of the loans in the event of a rapid forced sale. The book value excludes any elements of unamortised fees and incentives as these represent accounting entries arising from the application of IAS 39 and would not generate any cash payments from a potential acquirer. The discount amounts to £2,194m.

The 10% discount on net book value is supported by the level of sellers share currently held within Granite. As at 20 September 2007, total securitised mortgages amounted to £53,305m compared to securitised loan notes in issue of £47,797m, representing approximately 10% difference.

Lifetime (HERM) mortgages are estimated to realise their full book value. This reflects an existing indicative offer received for these loans at a small premium. Where mortgages have been securitised for the purposes of a repo transaction with the Bank of England (Granite 07-3) these are included as securitised mortgages.

As with standard residential mortgages, the ring fenced mortgages of £12,237m included within the covered bond program are assumed to realise 90% of their book value. This

amounts to £11,013m. After deducting the outstanding covered bond notes totalling £8,524m, a net cashflow of £2,489m has been assumed. This results in a net loss of £1,224m representing the 10% discount on the mortgages.

The fair value of the portfolio hedge represents an accounting item, and does not reflect cashflows and has therefore been removed from the balance sheet.

Residential mortgages subject to securitisation would be retained by the securitisation trustee (Bank of New York) and would be used to repay the securitisation notes. Residential mortgages subject to securitisation include the Northern Rock share of the master issuer. This includes the assets securitised as part of Granite 07-3, which has been used as part of the Bank of England repo arrangement. It has been assumed that there is no cash recovery obtained by Northern Rock from the trustee in relation to the Northern Rock share. The total mortgages, including Granite 07-3 amount to £53,305m and the associated securitisation notes total £47,797m in addition to £226m of accrued interest. The net balance of £5,282m is included in the realisation reserve.

Commercial loans not subject to securitisation are estimated to realise 85% of the book value as at 20 September 2007 which would result in a funding shortfall of £202m

Certain Northern Rock mortgages contain provisions which allow customers to take payment holidays, or make over payments which may subsequently be redrawn. No assumption has been made about the impact of these flexible arrangements.

Unsecured loans

Unsecured loans comprise standalone unsecured loans, mortgage linked unsecured loans and a deferred asset relating to deferred fees payable.

Standalone unsecured loans are estimated to realise 80% of the book value as at 20 September 2007. This is based on management's estimate of the net realisable value of the loans in the event of a rapid forced sale. This view has been informed from discussions management have had with potential acquirers as part of the review of the balance sheet following the granting of the Basle II waiver by the FSA.

Indicative offers for a portion of the book, which represented the higher quality portion, valued that portion at 95%. Valuation of the whole book would be likely to decrease this offer. There are additional inherent risks in the book the validity of payment protection insurance, and the relatively low average yield on the book of 6.7%.

The deferred asset represents an 'accounting entry' and therefore will not result in cashflows. The discount amounts to £896m in respect of the loans, and £21m in respect of the deferred asset.

Mortgage linked unsecured loans are estimated to realise 80% of the book value as at 20 September 2007. Whilst these loans are linked to a mortgage, which are estimated to realise 90% of book value (see above), the discount for the unsecured element is estimated to be the same as that for standalone unsecured loans. The discount amounts to £660m.

The total realisation shortfall for unsecured loans amounts to £1,556m

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Unsecured investment loans represent investments in structured investment vehicles ("SIVs"). A distressed sale of the capital notes of SIVs could result in a loss of £228m compared to their value as at 20 September 2007.

Available for sale securities / financial assets designated at fair value

A forced sale of available for sale securities in the current liquidity and credit market is likely to lead to a significant mark down on all assets except UK gilts. Losses would be realised in the event of a forced sale, in part being influenced by the timing of the asset sales. Based on current market conditions and estimates, it is likely that a loss amounting to £369m would be realised. In addition a haircut of 10% of the valuation of financial assets designate at fair value has been assumed.

The impact of the reduction in value of SIVs, AFS securities and financial assets designated at fair value amounts to £608m. This comprises:

| | £m |
|-------------------------------------------------------------|------------|
| Discount on SIVs | 228 |
| Discount on available for sale securities (excluding gilts) | 369 |
| 10% discount on financial assets designated at fair value | 11 |
| | <u>608</u> |

These valuations have been based on desk top valuations, without testing the market. In the event of these assets being made available for sale on the open market, given the value of these loans it is likely that such a move would have an adverse impact on the whole market, therefore increasing the potential discount.

Intangible assets

Intangible assets comprise goodwill and computer software. In the event of an insolvency event these would not generate any cash and would therefore have a nil value.

Property, plant and equipment

Property, plant and equipment comprise land and buildings, computer hardware and other associated fixed assets. In the event of insolvency, it is forecast that these assets would realise 20% of their book value as at 20 September 2007, reflecting the difficulty in marketing the existing head office sites. The total cash proceeds have been forecast as £46m

Deferred income tax asset / corporation tax recoverable

The deferred income tax asset represents an accounting entry which will not result in a cashflow therefore has been removed. In the event of an insolvency it has been assumed that a repayment of corporation tax over the previous three financial years will be received amounting to £450m.

Other assets

Other assets do not represent monetary assets and therefore have been assumed to have a nil value.

Retirement benefit asset

The balance as at 20 September 2007 relates to a net retirement benefit asset calculated in accordance with IAS 19.

In this case it is more likely that the Scheme would not be accepted fully into the Pension Protection Fund ("PPF") after the assessment period because, based upon the initial results from the latest valuation dated 5 April 2007, the Scheme had a surplus of £87.2m on the PPF basis assessed at the valuation (primarily because of the restrictions on benefits paid by the PPF).

Following the ending of the assessment period, the creditor role of the Scheme would revert to the Trustees. Assuming a closedown scenario, it is probable that the Scheme would be wound up by the Trustees, with the Trustees acting on behalf of the Scheme to maximise their claim. This claim would be equivalent to the buy out deficit of the Scheme, which at the latest valuation date of 5 April 2007 was stated to be £116.0m.

Prepayments and accrued income

Prepayments and accrued income include deferred costs fees and accrued income in respect of the IAS 39 calculation of effective interest rates. In the event of insolvency, prepayment balances will not realise any cash.

LIABILITIES

Deposits by banks

Deposits from banks are covered by the Bank of England guarantee and have therefore been included within the balance sheet at their book value as at 20 September 2007. As these liabilities are covered by the guarantee they would be funded by the Bank of England guarantee and have been disclosed as such.

Customer accounts

Retail savings and time deposits are covered by the Bank of England guarantee and are therefore included within the balance sheet at their full book value as at 20 September 2007. As these liabilities are covered by the guarantee they would be funded by the Bank of England guarantee and have been disclosed as such.

Derivative financial instruments

As with derivative financial instruments which have a positive value, in the event of insolvency, there would be no cashflows in relation to these instruments, and have therefore been assumed to have a nil value within the balance sheet. Early settlement of derivatives may result in claims for breakage costs and the associated costs (including legal fees) have been forecast to be £521m.

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Debt securities in issue

In the event of insolvency the trustees for the securitised notes would assume responsibility for arranging the servicing of mortgages and administration of the notes. Accordingly these would no longer be liabilities of Northern Rock. Cash generated from the underlying mortgages would be used to service the interest payments on the notes.

As noted earlier, the pool of mortgages supporting the covered bonds would realise 90% of its book value, and the cash generated from this disposal would be used to repay the covered bond notes.

It has been assumed that the remaining debt securities in issue are covered by the Bank of England wholesale guarantee and have been included as a Bank of England liability.

Granite GIC account / Granite Basis swap liability

As at 20 September 2007, Northern Rock retained £3,402m of cash which represented the Granite GIC account. In the event of insolvency, there is a requirement to transfer this balance to a third party. As cash is not held within a segregated account additional funding would be required to effect this transfer. Whilst this would involve additional initial funding, at the end of the life of the securitisation vehicles the cash would be repaid.

In addition to the GIC account, there is a basis swap between Northern Rock and Granite. The fair value of this as at 20 September 2007 was £834m in favour of Granite. In the event of insolvency there would be a requirement to transfer this swap to a third party. The funding requirement of such a transfer, including additional margin that would be required, has been estimated at £1,000m.

Other costs / liabilities

As a result of insolvency, there would be a requirement to conclude a programme of redundancies in conjunction with a wind down of the business. This wind down of the business could take a number of years to complete, and the costs of this and the redundancies have been estimated at £500m. In addition, a general provision has been established to cover potential claims for damages and legal costs of £500m.

Current taxation liabilities

The current taxation liability represents the taxation liability for the period up to 20 September as well as provision against previous year's tax liabilities which have either not yet been agreed with HMRC or not yet fully settled. As noted above, insolvency may result in a tax repayment of £450m.

Accruals and deferred income

Accruals and deferred income includes £306m accrued retail interest, £221m of wholesale accrued interest and will therefore be included within the Bank of England guarantee. £226m of securitisation accrued interest has been transferred to securitisation balances. The remaining £229m is retained is forecast to be paid.

Subordinated liabilities / Tier 1 notes

Subordinated liabilities, Tier 1, Reserve Capital Instruments and subordinated notes have been retained as liabilities at their value on 20 September 2007.

Regulatory capital

As at 20 September 2007, Northern Rock had a capital surplus estimated at £365m. No assumptions have been made concerning the amount or type of capital that Northern Rock would be required to hold in the event of insolvency.

Board is requested to note the contents of this report

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Scenario I – Insolvency
 Based on the Balance Sheet as at September 20th 2007

| ASSETS | Opening Balance Sheet £m | Securitisation £m | Securitisation and CDIC £m | Securitisation basis rate £m | Covered BTL £m | Residential Mortgages £m | No residential £m | Commercial £m | US £m | Treasury Assets £m | Derivative Financial Instruments £m | Real Savings Guarantee £m | Wholesale Guarantees £m | Pensions £m | Fund Assets £m | Corporation The Records £m | Collateral Values £m | Accounting Adjustments £m | Total Adjustments £m | Closing Balance Sheet £m | |
|-------------------------------------------------------------|--------------------------------|----------------------|----------------------------------|------------------------------------|----------------------|--------------------------------|----------------------|------------------|----------|--------------------------|----------------------------------------------|---------------------------------|-------------------------------|----------------|-------------------|-------------------------------------|----------------------------|---------------------------------|----------------------------|--------------------------------|-----|
| | | | | | | | | | | | | | | | | | | | | | 10% |
| Cash and balances with central banks | 12 | | | | | | | | | | | | | | | | | | | | |
| - cash ratio deposits | 89 | | | | | | | | | | | | | | | | | | | | |
| - other balances with central banks | 92 | | | | | | | | | | | | | | | | | | | | |
| Derivative financial instruments | 1,988 | | | | | | | | | (1,988) | | | | | | | | | | | |
| Loans and advances to banks | | | | | | | | | | | | | | | | | | | | | |
| - external | 3,514 | | | | | | | | | (3,514) | | | | | | | | | | | |
| Loans and advances to customers | | | | | | | | | | | | | | | | | | | | | |
| - residential not subject to securitisation | 21,944 | | | | | | | | | | | | | | | | | | | | |
| - residential (covered bond pool) | 12,237 | | | | | | | | | | | | | | | | | | | | |
| - residential Lifetime mortgages | 2,000 | | | | | | | | | | | | | | | | | | | | |
| - commercial BTL not subject to securitisation | 985 | | | | | | | (985) | | | | | | | | | | | | | |
| - residential and commercial deferred asset | 210 | | | | | | | | | | | | | | | | | | | | |
| - residential subject to securitisation (incl seller share) | 53,305 | | | | | | | | | | | | | | | | | | | | |
| - commercial not subject to securitisation | 360 | | | | | | | (360) | | | | | | | | | | | | | |
| - commercial subject to securitisation | (0) | | | | | | | | | | | | | | | | | | | | |
| - unsecured loans | (0) | | | | | | | | | | | | | | | | | | | | |
| - unsecured loans (Vemura) | 4,480 | | | | | | | | (4,480) | | | | | | | | | | | | |
| - unsecured loans (MLUSL) | 3,302 | | | | | | | (3,302) | | | | | | | | | | | | | |
| - unsecured deferred asset | 21 | | | | | | | | | | | | | | | | | | | | |
| - unsecured investment loans | 614 | | | | | | | | | | | | | | | | | | | | |
| - unsecured investment loans (672) | | | | | | | | | | | | | | | | | | | | | |
| Fair value adjustments of portfolio hedging | | | | | | | | | | | | | | | | | | | | | |
| Available for sale securities | 2,007 | | | | | | | | | | | | | | | | | | | | |
| - eligible for BTL collateral | 4,533 | | | | | | | | | | | | | | | | | | | | |
| - eligible for BTL collateral | (2,007) | | | | | | | | | | | | | | | | | | | | |
| Financial assets designated at fair value | 109 | | | | | | | | | | | | | | | | | | | | |
| Intangible assets | 102 | | | | | | | | | | | | | | | | | | | | |
| Property, plant & equipment | 231 | | | | | | | | | | | | | | | | | | | | |
| Deferred income tax asset | 5 | | | | | | | | | | | | | | | | | | | | |
| Other assets | 34 | | | | | | | | | | | | | | | | | | | | |
| Retirement benefit asset | 13 | | | | | | | | | | | | | | | | | | | | |
| Prepayments and accrued income | 159 | | | | | | | | | | | | | | | | | | | | |
| Total assets | 111,675 | (53,305) | 3,402 | 1,000 | (9,748) | (2,194) | 0 | (202) | (1,556) | (608) | (1,988) | 0 | 0 | 0 | 0 | 450 | (229) | (57) | (65,036) | 46,639 | |

Scenario 1 - Insolvency
 Based on the Balance Sheet as at September 20th 2007

| | Openly subordinated £m | Securitisation £m | Securitisation and C&I £m | Securitisation £m | Secured Bond £m | Residential Mortgage £m | HERM £m | Commercial £m | USL £m | Treasury Assets £m | Derivative instruments £m | Real Estate Guarantee £m | Vehicle Guarantee £m | Pensions £m | Fixed Assets £m | Corporate receivables £m | Contingent liabilities £m | Accounting adjustments £m | Total Adjustments £m | Closing Balance Sheet £m |
|------------------------------------------------------------------|------------------------------|----------------------|---------------------------------|----------------------|-----------------------|-------------------------------|------------|------------------|-----------|--------------------------|---------------------------------|--------------------------------|----------------------------|----------------|--------------------|--------------------------------|---------------------------------|---------------------------------|----------------------------|--------------------------------|
| Liabilities | | | | | | | | | | | | | | | | | | | | |
| Deposits by banks | | | | | | | | | | | | | | | | | | | | |
| Time Deposits (credit institutions) | 2,600 | | | | | | | | | | | | (2,600) | | | | | | (2,600) | 0 |
| Retail unrepresented cheques | 1,743 | | | | | | | | | | | (1,743) | | | | | | | (1,743) | 0 |
| Other (incl BOE/ADB repos) | 3,659 | | | | | | | | | | | (3,659) | | | | | | | (3,659) | 0 |
| Customer accounts | 16,356 | | | | | | | | | | | (16,356) | | | | | | | (16,356) | 0 |
| Retail Savings | 4,612 | | | | | | | | | | | (4,612) | | | | | | | (4,612) | 0 |
| Time Deposits | 3,025 | | | | | | | | | | (3,025) | | | | | | | | (3,025) | 0 |
| Derivative financial instruments | | | | | | | | | | | | | | | | | | | | 0 |
| Debt securities in issue | | 47,797 | | | | | | | | | | | | | | | | | | 0 |
| - securitised notes (incl BOE) | | 8,524 | | | (8,524) | | | | | | | | | | | | | | | 0 |
| - covered bonds | | 17,711 | | | | | | | | | | | (17,711) | | | | | | | 0 |
| - other | | 141 | | | | | | | | | | 23,017 | | | | | | (141) | | 0 |
| Other liabilities | | | | | | | | | | | | | | | | | | | | 0 |
| BOE guarantee | | | 3,402 | 1,000 | | | | | | | | | | | | | | | | 0 |
| Additional BOE funding | | | | | | | | | | | | | | 116 | | | | | | 0 |
| Pensions | | | | | | | | | | | | | | | | | | | | 116 |
| Other costs/liabilities (incl potential damages and legal costs) | | | | | | | | | | | | | | | | | | | | 1,000 |
| Derivative penalty and breakage costs | | | | | | | | | | | 521 | | | | | | | | | 521 |
| Current taxation liabilities | 62 | | | | | | | | | | | | | | | | | | | (62) |
| Accruals and deferred income | 229 | | | | | | | | | | | | | | | | | | | (229) |
| Accrued retail interest | 306 | | | | | | | | | | | | | | | | | | | (306) |
| Treasury accrued interest | 221 | | | | | | | | | | (221) | | | | | | | | | 0 |
| Securitisation accrued interest | 228 | | | | | | | | | | | | | | | | | | | (228) |
| Subordinated liabilities | 1,092 | | | | | | | | | | | | | | | | | | | 1,092 |
| Tier 1 notes | 188 | | | | | | | | | | | | | | | | | | | 188 |
| Called up share capital | 108,492 | (48,023) | 3,402 | 1,000 | (8,524) | 0 | 0 | 0 | 0 | 0 | (2,725) | 0 | 0 | 116 | 0 | 0 | 771 | (203) | (54,187) | 54,305 |
| - ordinary | 124 | | | | | | | | | | | | | | | | | | | 124 |
| - preference | 0 | | | | | | | | | | | | | | | | | | | 0 |
| Share premium account | 7 | | | | | | | | | | | | | | | | | | | 7 |
| Reserves | 396 | | | | | | | | | | | | | | | | | | | 396 |
| - preference | 7 | | | | | | | | | | | | | | | | | | | 7 |
| Capital redemption reserve | (72) | | | | | | | | | | | | | | | | | | | (72) |
| Other reserves | 1,684 | | | | | | | | | | 1,258 | | | | | | | | | 3,089 |
| Retained earnings | 2,147 | | | | | | | | | | 1,258 | | | | | | | | | 3,551 |
| Total equity attributable to equity shareholders | | | | | | | | | | | | | | | | | | 147 | 1,404 | 3,551 |
| Reserve capital instruments | 299 | | | | | | | | | | | | | | | | | | | 299 |
| Subordinated notes | 737 | | | | | | | | | | | | | | | | | | | 737 |
| Non shareholders' funds | 1,036 | | | | | | | | | | | | | | | | | | | 1,036 |
| Realisation reserve | 0 | (5,282) | 0 | 0 | (1,224) | (2,194) | 0 | (202) | (1,556) | (608) | (521) | 0 | 0 | (116) | 0 | 450 | (1,000) | 0 | (12,253) | (12,253) |
| Total equity and liabilities | 111,675 | (53,305) | 3,402 | 1,000 | (9,748) | (2,194) | 0 | (202) | (1,556) | (608) | (1,989) | 0 | 0 | 0 | 0 | 450 | (229) | (57) | (65,086) | 46,639 |