

4 NOVEMBER 2009

NORTHERN ROCK THIRD QUARTER 2009 TRADING STATEMENT

**“NORTHERN ROCK REPORTS TRADING
PERFORMANCE IMPROVEMENT”**

- **Improved trading performance in the third quarter against a challenging economic background**
- **Encouraging trends on net interest income, costs and loan loss impairment**
- **Financial performance in the second half of the year is expected to show a significant improvement on the first six months.**

Introduction

Following the announcement on 28 October 2009 that the European Commission (EC) has approved the Government’s State Aid package, Northern Rock (the “Company”) continues to make good progress in implementing its new business plan and the proposed legal and capital restructure.

The Company today publishes its Trading Statement for the three month period to 30 September 2009.

Financial Performance

The Company’s financial performance during the third quarter of the year has improved on both an underlying and a statutory basis. This reflects higher net interest income, good cost control and lower loan loss impairment.

Following the EC’s approval of the Government’s State Aid package, the Company will recognise a rebate relating to the cost of the Government loan and guarantee costs of £445 million, as previously announced, which will be reflected in the full year statutory results.

The overall financial performance of the Company in the second half of 2009 is expected to reflect a significant improvement on the first six months of the year.

Lending

Gross mortgage lending during the quarter accelerated to £1 billion as the Company increased its lending towards its 2009 target. Mortgage lending for the nine month period to 30 September 2009 was £2.3 billion. The quality of new lending remains high, with the average loan to value ratio of new lending at 55%. Following completion of the restructure, Northern Rock plc (see “Notes to Editors”) intends to further increase its gross mortgage lending in 2010 towards the previously announced £9 billion.

All mortgage lending will continue to be responsible, with affordability for customers remaining a key consideration. All loans will be carefully underwritten, on commercial terms and in taxpayers’ best interests, demonstrating the application of the Company’s strengthened risk management capabilities.

Funding

Northern Rock has maintained growth of retail savings balances within the constraints of its self-imposed competitive framework and, at 30 September 2009, held balances of £19.0 billion (30 June 2009: £18.4 billion).

The Government guarantee of Northern Rock retail savings remains in place. Given the Company’s good progress, release of the guarantee will be reviewed by HMT and the FSA following completion of the legal and capital restructure. As previously stated, any decision to release this guarantee is subject to a minimum three month notice period, and fixed rate bonds will retain the guarantee for the existing term of the product.

The gross loan outstanding to the Government was £14.5 billion at 30 September 2009 (30 June 2009: £14.5 billion) reflecting the revised business plan and the cessation of the active redemption programme, which was the main driver of the earlier rapid repayment profile. After deducting liquidity balances held with the Bank of England (excluding collateral balances), the net amount outstanding to the Government at 30 September 2009 was £10.9 billion (30 June 2009: £10.9 billion).

Non-retail funding balances have continued to reduce in line with planned contractual maturities.

Debt Management and Customer Support

Having committed significant resources to its Debt Management function, the Company continues to focus on providing customers with the best possible support. Northern Rock's innovative mortgage rescue solutions have to date successfully assisted more than 1,000 customers facing financial difficulty to stay in their homes. Northern Rock has continued to support Government schemes as well as actively engaging with the debt advice community. The Company remains committed to helping customers in difficulty wherever possible, with repossession remaining a last resort.

As anticipated, continued improvement in early arrears trends (arrears under three months) has started to flow through, resulting in a slowdown in the rate of increase in arrears over three months. The Company's residential arrears over three months have increased to 4.11% at 30 September 2009 (30 June 2009: 3.92%), which partially reflects book shrinkage. This reflects the investment in debt management capability and improved affordability levels as a result of low interest rates.

The Company's stock of unsold repossessed properties has halved, from a peak of 4,201 at September 2008, to 2,193 at the end of September 2009.

Outlook

Conditions in the mortgage and housing markets remain subdued. House price declines have moderated in recent months, but the Company remains cautious as to the medium term outlook, given rising levels of unemployment and weakness in the wider economy. While recent trends have been encouraging, loan loss impairment is expected to remain a driver of the Company remaining loss making for the full year, as previously announced.

The new mortgage and savings bank created as a result of the legal and capital restructure will be well capitalised and highly liquid enabling it to provide additional mortgage lending in line with the Government's objectives, to position for a return to profitability and, in due course, a return to private ownership.

CEO Gary Hoffman commented:

“I am encouraged by the improving financial performance of the Company. Today’s results demonstrate that we are continuing to make good progress.

“The EC’s recent decision to approve State Aid is an important milestone in the process of implementing the legal and capital restructure of the business. Our intention is to complete this by the end of the year.

“At Northern Rock we remain committed to working with all our customers and to assist those who may be facing financial difficulty. We continue to invest a lot of effort in our approach to debt management and to providing the best possible support we can in all circumstances.”

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Notes to Editors

On 28 October 2009 The EC approved the State Aid package for Northern Rock, which is a key precondition of proceeding towards the completion of the legal and capital restructure, which is expected to complete by the end of the year. The proposed restructuring will result in two separate companies:

- **Northern Rock plc** – a new savings and mortgage bank that will hold and service all customer savings accounts and some existing mortgage accounts. The bank is proposed to be authorised as a deposit taker by the FSA and will offer new savings products. It will also offer new mortgage lending to support the Government’s objective of increasing mortgage supply and sustaining a competitive market.
- **Northern Rock (Asset Management) plc** – the existing company which is proposed to hold and service the balance of the existing residential mortgage book and, subject to FSA approval, will be regulated as a mortgage provider, not a deposit taking bank. 90% of the mortgages held by Northern Rock (Asset Management) will be fully performing and are not in arrears. The portfolio will include the Company’s interest in those mortgages allocated to the Granite securitisation and covered bond programmes. It will not offer any new mortgage lending.

Both entities will remain within Government ownership.

The restructure will allow us to strengthen our capital position, offer the most capital efficient solution, and is in taxpayer’s best interests.

For our customers it is very much business as usual and we intend to make this process as seamless as possible.

Northern Rock is mindful of its position as a Government supported bank and has been operating under a self imposed Competitive Framework since early 2008. We have agreed some revised measures with the Government and EC as part of the approval process which will allow us to deliver on our plan, increase lending and take an appropriate level of retail funds, whilst not taking unfair advantage of Government support.

The Company’s full statement from 28 October 2009 can be found at www.northernrock.co.uk in the “Company Info” section.

Important Notice

This document contains certain forward-looking statements with respect to the plans and objectives of Northern Rock, its current goals and expectations relating to its future financial condition and performance and the future operations of its business.

Forward-looking statements are sometimes, but not always, identified by the use of a date in the future or by such words as “anticipates”, “aims”, “due”, “could”, “may”, “should”, “expects”, “believes”, “intends”, “plans”, “potential”, “reasonably possible”, “targets”, “goal” or “estimates” (although their absence does not mean that a statement is not forward looking). By their nature, forward-looking statements are unpredictable and involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Northern Rock’s actual future results or developments may differ materially from the results and developments expressed or implied in these forward-looking statements as a result of a variety of factors, including (but not limited to) UK domestic and global economic and business conditions, market related risks such as interest rate and exchange rate volatility, delays in implementing proposals, difficulties with computer systems, legislative, fiscal, competition and regulatory developments and changes, the impact of any legal or other proceedings against Northern Rock, changes in customer preferences and other factors.

All forward-looking statements in this press release are based on information available to Northern Rock as of the date hereof. All written or oral forward-looking statements attributable to Northern Rock or any person acting on behalf of Northern Rock are expressly qualified in their entirety by the foregoing.

Other than in accordance with its legal or regulatory obligations, neither Northern Rock nor anyone acting on its behalf undertakes any obligation to update or revise any forward looking statement, whether as a result of new information, future events or otherwise.