

22 July 1999

NORTHERN ROCK GROUP INTERIM RESULTS

Northern Rock plc today issued its interim results for the six months ended 30 June 1999.

HIGHLIGHTS

- Post tax profits up by 4.8% to £75.8 million - a return on equity of 18.3%
- Interim dividend increased by 15% to 4.5p per share
- Assets increased by 5.8% to £19.3 billion
- Net lending over £1.0 billion - a market share of 6%
- Mortgage accounts over 3 months in arrears down by 12.5%
- New wholesale funds of £1.2 billion
- Cost : income ratio of 31.8%
- Cost : asset ratio of 0.61%

Leo Finn, Chief Executive, said:

“In the first half of 1999 interest rates fell to their lowest levels for over 30 years, fears of recession were allayed and the housing and mortgage markets were buoyant. We did very well to take more than our share of UK mortgage lending as well as growing our commercial and personal lending portfolios. The quality of our assets remains excellent.

Competition and conditions in the UK retail deposit market have continued to be extremely difficult resulting in aggressive pricing and a consequential reduction in margins. As anticipated we successfully utilised the wholesale money markets to offset this and offered more bond and tracker type products to meet the requirements of our retail customers.

We continue to see great value in focus on our core business. We remain one of the lowest cost providers in the sector and have great flexibility to adapt to rapidly changing conditions. Our results provide a strong base for the remainder of 1999 and beyond.”

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Lending

Gross lending was £1,889 million (30 June 1998 - £2,052 million) representing an estimated market share of 3.6% of the UK mortgage market. Net lending was £1,027 million (30 June 1998 - £1,213 million); an estimated share of 6%, almost twice our opening share of mortgage stock of 3.2%. The housing market has benefited from lower interest rates and an improvement in economic outlook. This has contributed to a fall in the proportion of remortgage business and an increase in lending to first time buyers. As fixed rate mortgages have become less popular we have seen an increase in demand for cashback and discount mortgages. We are pleased with the success of our "together" product which combines a secured residential mortgage and unsecured loan facility and which accounted for 13% of our net lending in the first half.

Retail Funding

As anticipated the UK retail funding market remained difficult in the first half as a result of extreme competition compounded by the effect of the end of the tax advantage of PEPs and Tensas. Our strategy in the first half has been directed at retaining retail funds resulting in a small outflow of £414 million after interest credited of £196 million. With rapidly falling rates customers have been looking to protect their investment income. We have remained alert to their needs and introduced innovative fixed rate bonds, variable rate tracker accounts and long term bonds linked to the performance of the Stock Market.

Treasury and Non Retail Funding

As the cost of wholesale funds remains below the cost of new retail funds, in the short term, our funding requirements have been met by our Treasury operations. In May we launched a very successful US Medium Term Note programme, attracting \$750 million, and have continued to utilise our existing European funding programmes. The Group's policy is to fully hedge any exchange rate exposures by using cross currency swaps and forward exchange contracts. In total, we have increased our wholesale funded balances by £1.2 billion to £7.0 billion. Treasury will continue to market the Northern Rock name to diversify our investor base during the second half.

Assets

Total assets grew to £19.3 billion at 30 June 1999, an increase of 5.8% from the previous year end.

Profits

As explained in detail on pages 8 and 9 the treatment of mortgage incentive costs has been amended so that they are now all accounted for on the same basis. This has resulted in a prior year adjustment to previously reported results which has the effect of increasing the 1998 first half profit before tax by £4.9 million to £107.2 million. 1999 first half profit before tax amounted to £111.5 million, an increase of 4%.

Compared to the 1998 restated first half results, profit after tax has increased by 4.8% to £75.8 million generating a return on equity of 18.3%.

Margins

Net interest margin has declined to 1.47% compared with 1.59% for all of 1998, with spread reducing from 1.24% to 1.19%. Liability spreads have continued to contract as interest rates have fallen and due to the current pricing conditions in the retail savings market. These effects have been partially offset by a widening of our asset spread reflecting lower costs of mortgage incentives and the benefit of premium returns on our personal and commercial loan portfolios.

Other Income

Other income has grown by 6.0% compared to the first half of 1998 reflecting continued success of sales of protection insurance and volume driven lending fees.

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Expenses

The cost : asset ratio has remained at the same level as in the first half of 1998 at 0.61% although we anticipate that on a like for like basis the full year cost : asset ratio will be below that for 1998. The cost : income ratio has been adversely affected by the pressures on margin and has risen to 31.8% from 30.0% although no further erosion of this ratio is expected in the remainder of 1999.

Arrears and Possessions

Both long and short term mortgage arrears are below levels of six months ago despite an increase in the size of the mortgage book. Accounts 3 months or more in arrears have fallen by 12.5%. At 30 June 1999, 388 residential properties were in possession against 451 at the end of 1998. Our other loan portfolios continue to perform extremely well, with only 1.6% of our commercial loans and 2.4% of our personal unsecured loans in arrears.

Provisions

We continue to benefit from our policy of lending to customers with high credit quality. Loss provisions in the six months amounted to £6.4 million representing 0.08% of mean advances to customers compared with the same period in 1998 when loss provisions were £6.9 million (0.10%).

Dividends

The proposed interim dividend is 4.5p per share (30 June 1998 - 3.9p) payable on 29 October 1999 to members on the register on 1 October 1999.

Capital

As part of the ongoing management of our capital we made two issues of upper Tier 2 capital in the first half amounting to £222 million. The change in treatment of mortgage incentive costs has also increased Tier 1 capital by £42.1 million as a prior year adjustment to retained reserves.

At 30 June 1999 total capital amounted to £1,380.9 million resulting in a total capital ratio of 14.4%. Tier 1 capital was £856.1 million and the Tier 1 ratio 8.9%. The comparable restated ratios at 31 December 1998 were 12.6% and 9.1% respectively.

Securitisation

Plans for our inaugural securitisation issue in the second half remain on track. We anticipate securitising a small proportion of our mortgage loan book, which will contribute significantly to our funding requirements in the second half. Thereafter we anticipate that securitisation will provide an additional source of funding and the capacity for incremental volume growth.

Year 2000 and Euro

We are satisfied with progress in relation to readiness for year 2000 and remain confident that all our systems will continue to operate correctly into the next millennium. Reassurance testing will continue throughout the remainder of 1999. Continuity plans have been formulated and will be tested during the second half to ensure that recovery can be achieved in the event of any unforeseen problems arising.

Whilst the timing of entry into the Euro remains uncertain we continue to assess the impact of entry on our systems, operations and business as a whole.

Outlook

Our lending performance is strong and we are able to generate good returns from our assets. Our credit quality remains robust and we envisage no change in this situation. Whilst the retail funding market remains difficult we will seek more efficiency gains and continue to provide products that are attractive to our customers. We will continue to develop additional sources of funding such as securitisation which is both capital efficient and enhances lending growth. Flexibility and cost efficiency remain our key strengths.

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FINANCIAL HIGHLIGHTS

	Six months to 30 June		Full Year
	<u>1999</u>	<u>1998</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Key Performance Figures			
Gross lending	1,889	2,052	3,697
Redemptions	(862)	(839)	(1,897)
Net lending	1,027	1,213	1,800
Net retail receipts / (withdrawals) (including accumulated interest)	(414)	485	901
Net wholesale funding	1,226	968	1,285
Key Ratios - Profit and Loss			
	<u>%</u>	<u>%</u>	<u>%</u>
Net interest margin	1.47%	1.57%	1.59%
Interest spread	1.19%	1.23%	1.24%
Cost : income ratio (excluding covenant)	31.8%	30.0%	30.8%
Cost : income ratio (including covenant)	34.9%	33.0%	33.6%
Cost : asset ratio (excluding covenant)	0.61%	0.61%	0.63%
Cost : asset ratio (including covenant)	0.67%	0.68%	0.69%
Provision charge as a % of mean advances to customers	0.08%	0.10%	0.12%
Pre tax profit growth	4.0%	8.6%	5.6%
Effective tax rate	32.0%	32.6%	32.4%
Post tax profit growth	4.8%	11.7%	8.0%
Post tax return on average equity	18.3%	19.7%	19.4%
Post tax return on mean assets	0.81%	0.87%	0.86%
Shareholder Information			
	<u>p/share</u>	<u>p/share</u>	<u>p/share</u>
Earnings per ordinary share	17.1p	16.3p	32.9p
Fully diluted earnings per share	17.1p	16.3p	32.9p
Dividend per share	4.5p	3.9p	12.0p
Key Ratios - Balance Sheet			
	<u>%</u>	<u>%</u>	<u>%</u>
Asset growth	5.8%	9.7%	14.8%
Liquid assets as a percentage of total assets	16.6%	16.9%	17.4%
Total capital ratio	14.4%	12.7%	12.6%
Tier 1 ratio	8.9%	9.0%	9.1%

Notes

Ratios for 1998 have been restated to take account of the change in accounting policy detailed on page 8.

1999 first half profit and loss growth figures are calculated by reference to 1998 first half results as restated.

Asset growth in 1999 represents the growth of total assets between 31 December 1998 and 30 June 1999.

NORTHERN ROCK GROUP INTERIM RESULTS
FINANCIAL INFORMATION
CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months to 30 June <u>1999</u> <u>(Unaudited)</u> <u>£m</u>	Six months to 30 June <u>1998</u> <u>(Unaudited)</u> <u>(As Restated)</u> <u>£m</u>	Full Year <u>1998</u> <u>(Audited)</u> <u>(As Restated)</u> <u>£m</u>
Interest receivable			
interest receivable and similar income arising from debt securities	93.9	75.4	181.3
other interest receivable and similar income	<u>517.6</u>	<u>552.4</u>	<u>1,159.3</u>
	611.5	627.8	1,340.6
Interest payable	<u>(476.3)</u>	<u>(500.7)</u>	<u>(1,071.3)</u>
Net interest income	<u>135.2</u>	<u>127.1</u>	<u>269.3</u>
Fees and commissions receivable	59.6	51.2	101.9
Fees and commissions payable	(17.6)	(8.8)	(19.4)
Other operating income	<u>3.8</u>	<u>0.8</u>	<u>(1.1)</u>
Total non interest income	<u>45.8</u>	<u>43.2</u>	<u>81.4</u>
Total income	<u>181.0</u>	<u>170.3</u>	<u>350.7</u>
Administrative expenses			
operating	(53.1)	(47.6)	(99.7)
covenant to The Northern Rock Foundation	(5.6)	(5.1)	(10.1)
Total administrative expenses	<u>(58.7)</u>	<u>(52.7)</u>	<u>(109.8)</u>
Depreciation	(4.4)	(3.5)	(8.2)
Operating expenses	<u>(63.1)</u>	<u>(56.2)</u>	<u>(118.0)</u>
Provisions for bad and doubtful debts	(6.4)	(6.9)	(16.3)
Profit on ordinary activities before tax	<u>111.5</u>	<u>107.2</u>	<u>216.4</u>
Tax on profit on ordinary activities	(35.7)	(34.9)	(70.2)
Profit on ordinary activities after tax	<u>75.8</u>	<u>72.3</u>	<u>146.2</u>
Dividends	(20.0)	(17.3)	(53.3)
Profit retained for the period	<u>55.8</u>	<u>55.0</u>	<u>92.9</u>
Earnings per share	<u>17.1p</u>	<u>16.3p</u>	<u>32.9p</u>
Fully diluted earnings per share	<u>17.1p</u>	<u>16.3p</u>	<u>32.9p</u>

The basis of calculation of earnings per share figures is set out on page 12.

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CONSOLIDATED BALANCE SHEET

	30 June 1999 <u>(Unaudited)</u> £m	30 June 1998 <u>(Unaudited)</u> <u>(As Restated)</u> £m	31 December 1998 <u>(Audited)</u> <u>(As Restated)</u> £m
Assets			
Cash and balances at central banks	8.9	8.1	11.5
Treasury bills and other eligible bills	0.0	142.1	0.0
Loans and advances to banks	765.5	578.6	1,153.1
Loans and advances to customers	15,680.6	14,135.0	14,708.1
Debt securities	2,421.9	2,205.9	2,002.4
Tangible fixed assets	140.9	141.7	140.1
Other assets	12.7	16.4	9.4
Prepayments and accrued income	243.3	173.3	190.2
Total assets	19,273.8	17,401.1	18,214.8
Liabilities			
Deposits by banks	1,024.8	825.5	847.8
Customer accounts	12,245.7	12,079.7	12,296.2
Debt securities in issue	4,087.7	2,909.0	3,403.0
Other liabilities	188.5	208.3	157.8
Accruals and deferred income	343.6	297.3	388.3
Provisions for liabilities and charges	0.0	13.0	15.5
Subordinated liabilities	527.4	305.9	305.9
Called up share capital	130.6	130.6	130.6
Profit and loss account	725.5	631.8	669.7
Shareholders' funds - equity	856.1	762.4	800.3
Total liabilities	19,273.8	17,401.1	18,214.8

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NOTES TO THE INTERIM RESULTS

Statement of Total Recognised Gains and Losses

	<u>30 June</u> <u>1999</u>	<u>30 June</u> <u>1998</u> <u>(As Restated)</u>	<u>31 December</u> <u>1998</u> <u>(As Restated)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Profit on ordinary activities after tax	75.8	72.3	146.2
Total recognised gains and losses for the period	75.8	72.3	146.2
Prior year adjustment - Goodwill	0.0	(11.0)	(11.0)
Prior year adjustment - Mortgage Incentive Costs:			
Prior to 1 January 1998	32.5	0.0	0.0
Year ended 31 December 1998	9.6	0.0	0.0
	42.1	0.0	0.0
Total gains and losses recognised since last annual accounts	117.9	61.3	135.2

Prior year adjustment - Goodwill, relates to the implementation in 1998 of Financial Reporting Standard 10 'Goodwill and Intangible Assets' ('FRS10'). The implementation of FRS 10 resulted in goodwill, which had previously been written off against reserves, being reinstated on the balance sheet and amortised through the profit and loss account. In addition, an impairment review was conducted as at December 1997 on the purchased goodwill resulting from the acquisition of Kingsclear Homes Limited together with the unamortised goodwill from other acquisitions of care homes. The impairment review resulted in a write off of £9.2 million accounted for as a prior year adjustment in 1997 together with goodwill amortisation of £1.1 million. Cumulative amortisation to 31 December 1996 also accounted for as a prior year adjustment amounted to £0.7 million.

The prior year adjustment in relation to Mortgage Incentive Costs is described on page 8.

Reconciliation of Movements in Shareholders' Funds

	<u>30 June</u> <u>1999</u>	<u>30 June</u> <u>1998</u> <u>(As Restated)</u>	<u>31 December</u> <u>1998</u> <u>(As Restated)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Profit attributable to shareholders	75.8	72.3	146.2
Dividends	(20.0)	(17.3)	(53.3)
Net addition to shareholders' funds	55.8	55.0	92.9
Opening shareholders' funds:			
As previously reported	758.2	674.9	674.9
Prior year adjustment	42.1	32.5	32.5
As restated	800.3	707.4	707.4
Closing shareholders' funds	856.1	762.4	800.3

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Change in Accounting Policy and Method

Accounting policies and methods remain unchanged from those used in the preparation of the 1998 annual accounts other than in relation to accounting for mortgage incentive costs.

Mortgage Incentive Costs

Previously the costs of cashback incentives were amortised against other operating income in the profit and loss account over the shorter of three years or the incentive clawback period attaching to the cashback. Fee income received on these products was amortised over the same period. The costs of other forms of mortgage incentives, included in fixed rate and discounted rate mortgages, were charged to the profit and loss account against net interest income as they were incurred, regardless of the incentive clawback period attaching to the product.

The changes in treatment of mortgage incentive costs set out below results in all mortgage incentive costs being accounted for in the same manner, on a level yield basis. Previously, different products with the same level of incentive, incentive clawback period and level of profitability would result in different reported annual profit flows. The change to a level yield basis removes such distortions and will present results that more fairly demonstrate the underlying profitability of the business. The revised treatment of mortgage incentive costs is in accordance with the BBA Statement of Recommended Practice on accounting for Advances.

Change in Accounting Policy

Under the new accounting policy incentive costs of discounts, fixed rate and other similar mortgage products are expensed in equal annual amounts over the effective incentive clawback period for early redemption of these products. Other forms of incentives, such as valuation fees which are not directly linked to the interest rate on the mortgage, are expensed through the profit and loss account as they are incurred. Any fees receivable on mortgage products, which are subject to an incentive clawback period, which are effectively in lieu of interest receivable are also spread over the same period that the cost is written off.

All incentives which are not subject to incentive clawback periods and any excess cost of an incentive over and above the cost recoverable by the clawback are written off as incurred. The cost of interest related incentives is charged against interest receivable.

The above changes in accounting policy have been accounted for as a prior year adjustment. The effect of the change in accounting policy on the results of the Group is as follows:

	Six months to 30 June		Full Year
	<u>1999</u>	<u>1998</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Interest receivable	6.0	4.9	13.8
Tax on profit on ordinary activities	<u>(1.9)</u>	<u>(1.5)</u>	<u>(4.2)</u>
Profit on ordinary activities after tax	<u>4.1</u>	<u>3.4</u>	<u>9.6</u>

Change in Accounting Method

Cashback incentives were previously amortised against other operating income in the profit and loss account over the shorter of three years or the incentive clawback period attaching to the cashback. With effect from 1 January 1999 such incentives are amortised over the effective incentive clawback period, such amortisation now being charged against interest receivable. The amortisation charge for cashbacks in the six months ended 30 June 1999 was £8.1 million. If the period over which the cost of cashback incentives had not been changed the amortisation charge against other operating income would have been £14.6 million.

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Change in Accounting Method (continued)

The profit and loss account on page 5 has been restated by the transfer of the cashback amortisation charge from other operating income to net interest income. This transfer amounted to £14.9 million in the six months ended 30 June 1998 and £31.8 million for the year ended 31 December 1998.

Fees relating to cashback mortgages were previously amortised over the same period as cashback mortgages. These are now accounted for in the same way as fees on all other mortgage products ie recorded in fees and commissions receivable on a receivable basis unless the fee is in lieu of interest (see page 8). Fees relating to all mortgage products included in fees and commissions receivable for the six months ended 30 June 1999 amounted to £19.4 million. Under the previous accounting method the amount would have been £15.3 million.

Deferred Mortgage Incentive Costs

An analysis of the movement in the restated deferred mortgage incentive costs is set out in the following table.

	Six months to 30 June		Full Year
	<u>1999</u>	<u>1998</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Balance Sheet:			
Opening balance as previously reported	43.4	48.7	48.7
Prior year adjustment	60.3	46.5	46.5
Opening balance as restated	<u>103.7</u>	<u>95.2</u>	<u>95.2</u>
Additions	88.6	57.6	135.6
Amortisation	<u>(64.2)</u>	<u>(55.5)</u>	<u>(127.1)</u>
Closing balance	<u><u>128.1</u></u>	<u><u>97.3</u></u>	<u><u>103.7</u></u>
Profit and Loss Account:			
Amortisation -Previous year lending	46.8	38.8	77.7
-Current year lending	2.6	4.8	21.5
	<u>49.4</u>	<u>43.6</u>	<u>99.2</u>
Current year immediate write off	14.8	11.9	27.9
	<u><u>64.2</u></u>	<u><u>55.5</u></u>	<u><u>127.1</u></u>
<u>Net Interest Income</u>			
	Six months to 30 June		Full Year
	<u>1999</u>	<u>1998</u>	<u>1998</u>
	<u>£m</u>	<u>(As Restated)</u>	<u>(As Restated)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Interest receivable	611.5	627.8	1,340.6
Interest payable	<u>(476.3)</u>	<u>(500.7)</u>	<u>(1,071.3)</u>
Net interest income	<u>135.2</u>	<u>127.1</u>	<u>269.3</u>
Average balances			
Interest earning assets	18,345.3	16,235.3	16,887.6
Interest bearing liabilities	17,392.2	15,390.0	15,989.1
Net interest margin	1.47%	1.57%	1.59%
Net interest spread	1.19%	1.23%	1.24%

Net interest margin has been calculated by reference to average interest earning assets. Net interest spread represents the difference between interest receivable as a % of average interest earning assets and interest payable as a % of average interest bearing liabilities. Average balances have been calculated on a monthly basis.

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Other Income

	Six months to 30 June		Full Year
	<u>1999</u>	<u>1998</u>	<u>1998</u>
	<u>£m</u>	<u>(As Restated)</u>	<u>(As Restated)</u>
Commissions	21.8	21.7	40.7
Fees (net of service charges)	17.4	15.9	27.7
Others and subsidiaries	6.6	5.6	13.0
Total	<u>45.8</u>	<u>43.2</u>	<u>81.4</u>

	Six months to 30 June		Full Year
	<u>1999</u>	<u>1998</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>

Operating Expenses

Staff costs	26.0	24.7	53.2
Other expenses	27.1	22.9	46.5
Depreciation	4.4	3.5	8.2
Total	<u>57.5</u>	<u>51.1</u>	<u>107.9</u>

Direct staff costs of Care Home subsidiaries have been charged against Other Income as follows:

	<u>7.4</u>	<u>6.5</u>	<u>13.2</u>
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The average number of persons employed by the Group was as follows:

	Full Time		Full Year
	Six months to 30 June		
	<u>1999</u>	<u>1998</u>	
Core business	2,255	2,397	2,255
Subsidiaries - administration	20	27	23
- direct	897	896	916
Total	<u>3,172</u>	<u>3,320</u>	<u>3,194</u>

	Part Time		Full Year
	Six months to 30 June		
	<u>1999</u>	<u>1998</u>	
Core business	516	469	628
Subsidiaries - direct	883	829	869
Total	<u>1,399</u>	<u>1,298</u>	<u>1,497</u>

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Provisions for Losses on Loans and Advances

	Six months to 30 June		Full Year
	<u>1999</u>	<u>1998</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Provisions charge:			
Specific			
Secured on residential property	3.6	3.5	10.0
Other secured	0.0	0.1	0.2
Unsecured	1.4	1.8	1.5
	<u>5.0</u>	<u>5.4</u>	<u>11.7</u>
General			
Secured on residential property	0.0	0.8	3.5
Other secured	0.0	0.7	0.4
Unsecured	1.4	0.0	0.7
	<u>1.4</u>	<u>1.5</u>	<u>4.6</u>
Total provision charge	<u>6.4</u>	<u>6.9</u>	<u>16.3</u>
% of mean advances to customers	0.08%	0.10%	0.12%
Provisions balance:			
Specific			
Secured on residential property	9.0	17.9	10.4
Other secured	3.4	4.1	3.5
Unsecured	2.3	4.8	1.1
Total	<u>14.7</u>	<u>26.8</u>	<u>15.0</u>
General			
Secured on residential property	19.6	19.1	20.3
Other secured	6.1	5.5	5.4
Unsecured	3.5	2.6	2.1
Total	<u>29.2</u>	<u>27.2</u>	<u>27.8</u>
Total provision balance	<u>43.9</u>	<u>54.0</u>	<u>42.8</u>
% of period end advances to customers	0.28%	0.38%	0.29%

Residential Mortgage Arrears

	Six months to 30 June				Full Year	
	<u>1999</u>		<u>1998</u>		<u>1998</u>	
	Cases	% of Total Mortgages	Cases	% of Total Mortgages	Cases	% of Total Mortgages
3 - 6 months	1,976	0.6%	2,076	0.6%	2,267	0.7%
6 - 12 months	1,069	0.3%	1,235	0.4%	1,174	0.4%
Over 12 months	627	0.2%	870	0.3%	756	0.2%
Total	<u>3,672</u>	<u>1.1%</u>	<u>4,181</u>	<u>1.3%</u>	<u>4,197</u>	<u>1.3%</u>

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Earnings per Share

	Six months to 30 June		Full Year
	<u>1999</u>	<u>1998</u>	<u>1998</u>
	<u>£m</u>	<u>(As Restated)</u>	<u>(As Restated)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Profit after tax (page 5)	75.8	72.3	146.2
Weighted average number of shares in issue	443.6m	443.9m	443.8m
Basic EPS	17.1p	16.3p	32.9p
Fully diluted weighted average number of shares in issue	444.2m	444.7m	444.6m
Fully diluted EPS	17.1p	16.3p	32.9p

The weighted average number of Ordinary shares in issue has been determined after deducting shares held in trust for employee share schemes.

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 0.6 million (30 June and 31 December 1998: 0.8 million) potentially dilutive Ordinary shares resulting from options granted under The Northern Rock Sharesave Scheme.

78.4 million Foundation shares held by The Northern Rock Foundation have been excluded from the EPS calculations as they carry no rights to dividends. The Foundation shares can convert into Ordinary shares only under specified circumstances which are considered to be remote. If conversion were to take place the shares would rank for dividend but the covenant to The Foundation would cease.

Capital Structure

	30 June <u>1999</u> <u>£m</u>	30 June <u>1998</u> <u>£m</u>	31 December <u>1998</u> <u>£m</u>
Tier 1			
Share capital	130.6	130.6	130.6
Profit and loss account	725.5	631.8	669.7
Total Tier 1 capital	856.1	762.4	800.3
Upper Tier 2			
Perpetual subordinated debt	241.3	19.8	19.8
General provisions	29.2	27.3	27.8
Total Upper Tier 2 capital	270.5	47.1	47.6
Lower Tier 2			
Term subordinated debt	255.6	263.7	259.4
Total Tier 2 Capital	526.1	310.8	307.0
Deductions	(1.3)	(1.5)	(1.2)
Total capital	1,380.9	1,071.7	1,106.1
Risk weighted assets	9,569.8	8,436.7	8,765.6
Tier 1 ratio (%)	8.9%	9.0%	9.1%
Tier 2 to Tier 1 ratio (%)	61.5%	40.8%	38.4%
Total capital (%)	14.4%	12.7%	12.6%

The above figures for 1998 have been restated to take into account the prior year adjustment noted on page 8.

NORTHERN ROCK GROUP INTERIM RESULTS

Mortgage Lending

The following analysis of mortgage lending is based on total gross lending in each period.

	Six months to 30 June		Full Year
	<u>1999</u> %	<u>1998</u> %	<u>1998</u> %
Type of lending			
Fixed rate	50%	78%	78%
Discount	28%	12%	12%
Cashback	22%	10%	10%
Type of customer			
First time buyer	22%	10%	12%
Next time buyer	50%	40%	41%
Remortgage	28%	50%	47%
Geographic spread			
North	20%	16%	16%
Scotland	12%	12%	14%
Midlands	25%	31%	31%
South	43%	41%	39%

Loans and Advances to Customers

	30 June <u>1999</u> £m	30 June <u>1998</u> £m	31 December <u>1998</u> £m
Advances secured on residential property	14,992.5	13,700.1	14,209.5
Other secured advances	467.5	352.3	360.3
Unsecured loans	220.6	81.6	138.3
Amounts due from associated undertakings	0.0	1.0	0.0
	<u>15,680.6</u>	<u>14,135.0</u>	<u>14,708.1</u>

Analysis of Customer Accounts

Branch accounts	1,809.6	2,480.7	2,168.8
Postal accounts	3,865.2	1,990.6	2,710.3
Offshore accounts	1,785.3	1,559.3	1,681.9
Telephone accounts	2,909.1	4,337.4	4,222.7
Total retail balances	<u>10,369.2</u>	<u>10,368.0</u>	<u>10,783.7</u>
Other customer accounts	1,876.5	1,711.7	1,512.5
	<u>12,245.7</u>	<u>12,079.7</u>	<u>12,296.2</u>

NORTHERN ROCK GROUP INTERIM RESULTS

European Monetary Union

We continue our preparations to ensure readiness if and when a decision is made for the UK to become part of the European Economic and Monetary Union.

Over the past six months we have been carrying out an impact analysis, assessing the implications for our operational systems and processes in order to operate under the Euro. We also continue to assess the strategic implications of a single currency for all of our business operations. These processes will continue through 1999 and into 2000.

Year 2000

We are satisfied with progress in relation to readiness for Year 2000 and remain confident that all our systems will continue to operate correctly into the next millennium. All third party systems used by Northern Rock have now been signed off as compliant.

Reassurance testing will, however, continue throughout the remainder of 1999 both in relation to internal and third party supplied systems. Such testing is being carried out on site and at off site disaster recovery facilities. Full continuity plans have been formulated and will be tested during the second half of 1999 to ensure that recovery can be achieved in the event of any unforeseen problems arising prior to, during or subsequent to the new millennium.

The revenue costs of moving to Year 2000 compliance are expected to reach £3.5 million, of which £2.3 million has so far been incurred. In addition, capital expenditure will total £2 million which, in accordance with UITF 20, will be capitalised in line with our normal accounting policies and will be depreciated over five years.

Other Information

The information in this announcement is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory accounts of Northern Rock plc for the year ended 31 December 1998 have been filed with the Registrar of Companies in England and Wales. The auditors' report on these accounts was unqualified and did not include a statement under section 237(2) or (3) of the Act.

A summary of this report will appear as an advertisement in the Financial Times, The Times, The Daily Telegraph, The Scotsman and The Newcastle Journal on 23 July 1999.

The report is also available on the Northern Rock website www.northernrock.co.uk from 8.30am on 22 July 1999.

Dividends

Ex dividend date	27 September 1999
Record date	1 October 1999
Payment date	29 October 1999

NORTHERN ROCK GROUP INTERIM RESULTS

Independent Review Report to Northern Rock plc

Introduction

We have been instructed by the Company to review the financial information set out on pages 5 to 9, with the exception of the notes on Deferred Mortgage Incentive Costs and Net Interest Income set out on page 9, and we have read the other information contained in the interim report for any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Listing Rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 1999.

PricewaterhouseCoopers
Chartered Accountants

Newcastle upon Tyne
22 July 1999

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