

20 July 2000

NORTHERN ROCK GROUP INTERIM RESULTS

Northern Rock plc today issued its interim results for the six months ended 30 June 2000.

HIGHLIGHTS

- Net lending of £2.0 billion, a record
- 7.8% market share of UK net mortgage lending
- Post tax profits up by 11.5% to £84.5 million - a return on equity of 19.3%
- Earnings per share of 19.8p, an increase of 15.8%
- Ratio of costs to assets under management improved to 0.57% and costs to income improved to 31.5%
- Net retail funding of £552 million
- Rapid progress towards integrated e-commerce distribution

Leo Finn, Chief Executive, said:

“Northern Rock has been revitalised. We have returned to rapid growth. This is clearly demonstrated in our first half results with all areas of our business performing strongly.

We are one of the fastest growing mortgage lenders in the UK. We have the lowest costs. We are growing profits. By integrating e-commerce across the business we support growth and cost efficiency. We do not intend to spend a penny on the battle for current accounts which is a zero sum game.

We are focused, innovative, consumer friendly, and deliver on our promises. Northern Rock is unique in its sector and there is growing recognition of our achievements.”

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Lending

As anticipated, we have achieved strong levels of growth in all of our lending portfolios. Total gross lending was £3,128 million (30 June 1999 - £1,889 million) with net lending of £2,008 million (30 June 1999 - £974 million). The pipeline of new business at the end of the first half will support another strong lending performance in the second half.

The residential lending market has been buoyant in the first half of 2000 although competition remains intense. We achieved residential net lending of £1,524 million (30 June 1999 - £781 million) which represents an estimated market share of 7.8%, more than twice our opening share of stock of 3.2%. We have maintained 61% of our residential lending at or below 90% LTV. 70% of customers have a proven track record and we continue to avoid large loans. We have also maintained an excellent geographic spread of lending.

Our 'together' product has continued to be very successful and has been further enhanced in 2000 to include a credit card facility in addition to the unsecured loan combined with a residential mortgage all at one interest rate. New business volumes have amounted to over £700 million of which 85% are advances secured on residential property. This product will continue to be further developed to meet customer requirements.

Our secured commercial lending has continued to perform well with an increase in other secured advances of £210 million (30 June 1999 - £108 million).

Our unsecured portfolios comprising personal unsecured loans and credit cards, buoyed by the success of 'together', has seen good growth resulting in net lending of £274 million (30 June 1999 - £85 million). Both our unsecured and commercial portfolios attract premium rates of interest income.

Arrears and Possessions

Residential mortgage arrears continue to be well managed. At 30 June 2000 2,803 accounts were more than 3 months or more in arrears representing only 0.8% of all mortgage accounts, less than 50% of the UK average at the end of 1999 and a 25% improvement compared with 12 months ago. At 30 June 2000 only 260 properties were in possession compared with 352 at the end of December 1999.

Other loan portfolios continue to perform extremely well, with only 0.6% of our commercial loans and 1.5% of our personal unsecured loans three months or more in arrears.

Distribution and Processing

Quality of service to our customers and introducers remains key to the success of our business. Our multi channel strategy means that customers have the choice of how and when they transact business with us; directly in branches, by post, telephone, via e-commerce or indirectly via financial intermediaries.

The way we process business is developing rapidly. We have reduced the number of mortgage processing centres to 8 from 15 at the beginning of the year. We have improved our loan processing capacity by 50% through the introduction of our Decision Call Centre and associated processing centre. The Call Centre handles all of our introduced business. We continue to invest in our telephone based operations operating as Northern Rock Direct.

E-commerce

E-commerce provides us with further opportunities to grow in conjunction with our existing sources of business. Phase one of our e-commerce development is complete, with all of our products available for on-line application. For mortgages and unsecured loans this includes on-line credit scoring and decision making.

Phase two will result in the establishment of a new NR.com transactional web site. Throughout the second half of 2000 all products will become fully operational online. We are working with intermediaries on improving B2B links to improve application and processing efficiency.

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E-commerce (continued)

The internet provides a wide range of information sources for customers seeking financial products. We have contracts in place with a number of search engine providers and a large number of information providers. We are also developing our digital tv access and our Telewest site became operational in June. Further developments are anticipated in the second half.

In the first half of 2000 £250 million of new lending applications were received via e-commerce, representing 2% of new mortgage and 25% of new unsecured loan applications. In addition, 15% of retail funding via our Dublin based operation was sourced via the internet.

We will continue to invest in e-commerce but only in developments that will enhance our business or service to our customers. We will also ensure that our systems are robust, secure and provide what our customers want.

Retail Funding

Retail funding is an important part of our well balanced funding franchise. This is demonstrated by a net inflow of retail funds in the first half of £552 million, including interest credited of £185 million. At 30 June 2000 retail deposits were £11.6 billion. Fixed rate bonds and base rate tracker accounts have continued to be popular and we will continue to develop innovative products that meet customer demands.

Our Irish funding arm has performed in line with expectations and at the end of the first half had balances of £100 million.

Non Retail Funding

The expansion of our non retail funding activities continues with net new funding of £1,247 million in the six months to 30 June 2000. In April we refinanced \$800 million under our US Medium Term Note programme and anticipate further US issues especially in 2001 following the completion of our SEC registration.

Securitisation

Following the successful launch of our securitisation programme in October 1999 a second issue of £750 million of mortgage backed securities was completed on 1 March 2000. This programme will continue to be developed with plans for a further issue of up to £1 billion before the end of the year. By the end of 2000, £2.35 billion of Northern Rock mortgages will have been securitised, improving capital efficiency.

Assets

The balance sheet, after taking into account the securitised bonds (shown as a deduction from assets) has grown by 8.8% to £21.9 billion. Assets under management, including securitised mortgage balances, at 30 June 2000 amounted to £23.1 billion, an increase of 11.8% compared with £20.7 billion at 31 December 1999.

Total Income and Margins

The increasing importance of securitisation together with the interdependence of interest margin and other income on the pricing of products means that total income is the most appropriate indicator of profitability for Northern Rock. Total income as a proportion of mean total assets has remained stable at 1.90% in the first half of 2000 compared with 1.91% in the second half of 1999. As anticipated, and in line with the rapid growth in assets under management, the total income to total assets under management ratio has eased to 1.81% in the first half of 2000 compared with 1.89% in the second half of 1999.

Group interest margin and spread have been calculated taking into account interest recorded in the profit and loss account together with that recorded in the special purpose securitisation companies. Similarly average interest earning assets and liabilities include those on balance sheet and those in the special purpose securitisation companies. In the first half of 2000 interest margin and spread were 1.33% and 1.09% respectively. The equivalent figures in the second half of 1999 were 1.36% and 1.10% indicating, as anticipated, an easing of margin erosion.

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Expenses

Operational efficiency continues to be a key competitive advantage for Northern Rock. Our cost to assets under management ratio has fallen in the first half to 0.57% from 0.61% in the same period last year. The cost to income ratio at 31.5% remains one of the lowest in the European banking sector and will continue to be at the leading edge of performance across the sector.

We have continued to invest in e-commerce, improving processing and customer service as the volume of business grows. At the same time efficiencies have been achieved in distribution and mortgage service centres resulting in a reallocation of expenditure.

Provisions

Northern Rock continues to adopt a prudent approach to provisions. The charge for loss provisions in the first half of £8.4 million represents 0.10% of mean advances to customers compared with the same period in 1999 when loss provisions were £6.4 million (0.08%). The increase reflects the prudent approach adopted in relation to more unsecured and commercial secured lending. The balance sheet continues to be well protected by general provisions amounting to £30.7 million and by our wholly owned subsidiary, Northern Rock Mortgage Indemnity Company Limited.

Taxation

The effective tax rate for the first half was 31.0% compared with 32.0% for the same period last year.

The Special Commissioners have recently allowed appeals by Northern Rock and certain other converters against the Inland Revenue, accepting that conversion costs should be deductible for corporation tax purposes. The appeals were heard in principle only and the monetary values concerned have yet to be agreed. The costs of conversion were incurred in 1996 and 1997 and have not yet attracted tax relief.

Profits and EPS

2000 first half profit before tax amounted to £122.4 million an increase of 9.8% over the equivalent period in 1999. Profit after tax has increased by 11.5% to £84.5 million, generating a return on equity of 19.3% compared with 18.7% for 1999.

Earnings per share have grown by 15.8% to 19.8p in the first half of 2000.

Dividends

The proposed interim dividend is 5.1p per share payable on 31 October 2000 to shareholders on the register on 29 September 2000, a 13.3% increase over the 1999 interim dividend of 4.5p.

Capital

Capital efficiency is fundamental to the financial strategy of Northern Rock. In the first half of 2000 we commenced a share buyback programme which enhances both earnings per share and return on equity. Under this programme 25.2 million Ordinary shares have been purchased and subsequently cancelled. The total cost of the purchases, including the purchase of Foundation shares sufficient to maintain a 15% holding in the Company, amounted to £89.3 million. Our growth achievements and plans for the second half mean that our capital targets have already been met. Consequently no further buybacks are anticipated in the second half of 2000.

At 30 June 2000 total capital amounted to £1.4 billion resulting in a total capital ratio of 11.9%. Tier 1 capital was £865 million and the Tier 1 ratio 7.5%. The comparable ratios at 31 December 1999 were 13.8% and 8.7% respectively.

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Care Homes

In 1999 we provided for the anticipated loss on sale of the assets of our care home business. Although negotiations with a potential purchaser were terminated after the year end we have continued discussions with other interested parties. We have completed sales or have accepted offers for all of the 37 homes available for sale.

Outlook

Our strategy is clear. We have three established funding sources, superior cost efficiency and an integrated distribution system for customers. We aim to deliver rapid asset and profit growth. The success of our strategy is clearly demonstrated in the results of the first half and we are confident of continued success in the remainder of the year.

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FINANCIAL HIGHLIGHTS

	Six months to 30 June		Full Year
	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Key Performance Figures			
Gross lending	3,128	1,889	4,134
Net lending	2,008	974	1,949
Net retail funding (including accumulated interest)	552	(414)	306
Net non retail funding	1,247	1,226	1,274
Key Ratios - Profit and Loss			
	<u>%</u>	<u>%</u>	<u>%</u>
Total income : mean total assets	1.90%	1.93%	1.92%
Total income : mean assets under management	1.81%	1.93%	1.91%
Interest margin	1.33%	1.47%	1.41%
Interest spread	1.09%	1.19%	1.14%
Cost to income ratio	31.5%	31.8%	31.6%
Cost to asset ratio	0.60%	0.61%	0.61%
Cost to assets under management ratio	0.57%	0.61%	0.60%
Provision charge as a % of mean advances to customers	0.10%	0.08%	0.08%
Pre tax profit growth	9.8%	4.0%	6.4%
Effective tax rate	31.0%	32.0%	31.5%
Post tax profit growth	11.5%	4.8%	7.9%
Post tax return on average equity	19.3%	18.3%	18.7%
Post tax return on mean assets	0.80%	0.81%	0.82%
Post tax return on mean assets under management	0.77%	0.81%	0.81%
Shareholder Information			
	<u>p/share</u>	<u>p/share</u>	<u>p/share</u>
Earnings per share	19.8p	17.1p	32.4p
Fully diluted earnings per share	19.8p	17.1p	32.3p
Dividend per share	5.1p	4.5p	13.6p
Key Ratios - Balance Sheet			
	<u>%</u>	<u>%</u>	<u>%</u>
Growth in assets under mangement	11.8%	5.8%	13.6%
Balance sheet growth	8.8%	5.8%	10.5%
Total capital ratio	11.9%	14.4%	13.8%
Tier 1 ratio	7.5%	8.9%	8.7%

Notes

2000 first half profit growth figures are calculated by reference to 1999 first half results.

Asset growth in 2000 represents the growth of total assets between 31 December 1999 and 30 June 2000.

Profit and loss figures for the 1999 full year used in calculating the above ratios are stated before the effect of non recurring costs (£3.6 million) and provision for loss on disposal of care homes (£12.2 million). Half year figures for 2000 and 1999 do not require adjustment.

Assets under management are defined as total balance sheet assets plus non recourse finance.

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FINANCIAL INFORMATION
CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months to 30 June		Full Year
		<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>Note</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
		<u>£m</u>	<u>£m</u>	<u>£m</u>
Interest receivable				
interest receivable and similar income arising from debt securities		111.0	93.9	168.1
other interest receivable and similar income		596.4	517.6	1,060.2
		<u>707.4</u>	<u>611.5</u>	<u>1,228.3</u>
Interest payable		(569.8)	(476.3)	(961.1)
Net interest income	1	<u>137.6</u>	<u>135.2</u>	<u>267.2</u>
Fees and commissions receivable		60.5	53.3	116.7
Fees and commissions payable		(9.3)	(11.3)	(21.9)
Other operating income		11.0	3.8	8.5
Total non interest income	4	<u>62.2</u>	<u>45.8</u>	<u>103.3</u>
Total income	1	<u>199.8</u>	<u>181.0</u>	<u>370.5</u>
Administrative expenses				
operating		(58.2)	(53.1)	(111.5)
covenant to The Northern Rock Foundation		(6.1)	(5.6)	(10.8)
Total administrative expenses		(64.3)	(58.7)	(122.3)
Depreciation		(4.7)	(4.4)	(9.0)
Operating expenses	5	<u>(69.0)</u>	<u>(63.1)</u>	<u>(131.3)</u>
Provisions for bad and doubtful debts	6	(8.4)	(6.4)	(11.9)
Operating profit		<u>122.4</u>	<u>111.5</u>	<u>227.3</u>
Provision for loss on disposal of care homes		-	-	(12.2)
Profit on ordinary activities before tax		<u>122.4</u>	<u>111.5</u>	<u>215.1</u>
Tax on profit on ordinary activities		(37.9)	(35.7)	(71.6)
Profit on ordinary activities after tax		<u>84.5</u>	<u>75.8</u>	<u>143.5</u>
Dividends		(21.3)	(20.0)	(60.3)
Profit retained for the period		<u>63.2</u>	<u>55.8</u>	<u>83.2</u>
Earnings per share	8	<u>19.8p</u>	<u>17.1p</u>	<u>32.4p</u>
Fully diluted earnings per share	8	<u>19.8p</u>	<u>17.1p</u>	<u>32.3p</u>

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CONSOLIDATED BALANCE SHEET

<u>Note</u>	<u>30 June</u> <u>2000</u> <u>(Unaudited)</u> <u>£m</u>	<u>30 June</u> <u>1999</u> <u>(Unaudited)</u> <u>£m</u>	<u>31 December</u> <u>1999</u> <u>(Audited)</u> <u>£m</u>
Assets			
	11.0	8.9	25.4
Cash and balances at central banks			
Loans and advances to banks	798.7	765.5	1,152.6
Loans and advances to customers	17,453.2	15,680.6	16,080.7
Securitised advances	1,255.6	-	576.3
Less: non recourse finance	(1,231.0)	-	(565.8)
10	17,477.8	15,680.6	16,091.2
Debt securities	3,035.5	2,421.9	2,387.0
Tangible fixed assets	91.5	140.9	88.2
Other assets	90.9	12.7	54.3
Prepayments and accrued income	390.0	243.3	326.1
Total assets	<u>21,895.4</u>	<u>19,273.8</u>	<u>20,124.8</u>
Liabilities			
Deposits by banks	956.8	1,024.8	747.8
Customer accounts	14,062.9	12,245.7	12,745.6
12	4,906.3	4,087.7	4,633.6
Debt securities in issue			
Other liabilities	197.1	188.5	170.2
Accruals and deferred income	382.2	343.6	418.7
Subordinated liabilities	525.4	527.4	525.4
Called up share capital	123.9	130.6	130.6
13	6.8	-	-
Share premium account			
13	7.3	-	-
Capital redemption reserve			
13	726.7	725.5	752.9
Profit and loss account			
13	864.7	856.1	883.5
Shareholders' funds - equity			
Total liabilities	<u>21,895.4</u>	<u>19,273.8</u>	<u>20,124.8</u>
Assets under management	<u>23,126.4</u>	<u>19,273.8</u>	<u>20,690.6</u>

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CONSOLIDATED CASHFLOW STATEMENT

	Six months to 30 June <u>2000</u> (Unaudited) <u>£m</u>	1999 (Unaudited) <u>£m</u>	Full Year <u>1999</u> (Audited) <u>£m</u>
Net cash inflow from operating activities	1,051.0	135.4	281.0
Returns on investments and servicing of finance	(21.6)	(14.1)	(34.6)
Taxation	(23.4)	(4.5)	(80.4)
Capital expenditure and financial investment	(637.1)	(408.4)	(373.1)
Equity dividends paid	(38.2)	(36.0)	(56.0)
Net cash inflow/(outflow) before financing	<u>330.7</u>	<u>(327.6)</u>	<u>(263.1)</u>
Financing	(81.9)	221.5	219.5
Increase/(decrease) in cash	<u><u>248.8</u></u>	<u><u>(106.1)</u></u>	<u><u>(43.6)</u></u>

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STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<u>30 June 2000</u> <u>(Unaudited)</u> <u>£m</u>	<u>30 June 1999</u> <u>(Unaudited)</u> <u>£m</u>	<u>31 December 1999</u> <u>(Audited)</u> <u>£m</u>
Profit on ordinary activities after tax	84.5	75.8	143.5
Total recognised gains and losses for the period	84.5	75.8	143.5
Prior year adjustment - Mortgage Incentive Costs	-	42.1	42.1
Total gains and losses recognised since last annual accounts	<u>84.5</u>	<u>117.9</u>	<u>185.6</u>

Prior year adjustment - Mortgage Incentive Costs, relates to the change in 1999 in the way in which the Group accounts for interest related mortgage incentive costs. The change resulted in all interest related mortgage incentive costs being expensed on a level yield basis over the effective incentive clawback period for early redemption of the mortgage.

Before 1999 the costs of cashbacks were amortised against other operating income in the profit and loss account over the shorter of three years or the incentive clawback period attached to the cashback. The costs of other forms of interest related incentives were charged against net interest income as they were incurred, regardless of the incentive clawback period attaching to the product.

The revised treatment results in different products with the same level of interest related incentive, incentive clawback period and level of profitability giving the same annual reported profit flows.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>30 June 2000</u> <u>(Unaudited)</u> <u>£m</u>	<u>30 June 1999</u> <u>(Unaudited)</u> <u>£m</u>	<u>31 December 1999</u> <u>(Audited)</u> <u>£m</u>
Profit attributable to shareholders	84.5	75.8	143.5
Dividends	<u>(21.3)</u> 63.2	<u>(20.0)</u> 55.8	<u>(60.3)</u> 83.2
Repurchase of shares	(89.3)	-	-
Issue of ordinary shares	5.2	-	-
Reversal of accrued dividend on repurchased shares	2.1	-	-
Net (reduction) / addition to shareholders' funds	<u>(18.8)</u>	<u>55.8</u>	<u>83.2</u>
Opening shareholders' funds	883.5	800.3	800.3
Closing shareholders' funds	<u>864.7</u>	<u>856.1</u>	<u>883.5</u>

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NOTES TO THE INTERIM RESULTS

1. Total Income

	Six months to 30 June		Full Year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Net interest income	137.6	135.2	267.2
Other income	62.2	45.8	103.3
Total income	<u>199.8</u>	<u>181.0</u>	<u>370.5</u>
Mean total assets	21,047.9	18,730.6	19,274.3
Mean assets under management	22,029.9	18,730.6	19,398.4
Total income : mean total assets	1.90%	1.93%	1.92%
Total income : mean assets under management	1.81%	1.93%	1.91%

2. Interest Spread and Margin

	Six months to 30 June		Full Year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Interest receivable	746.9	611.5	1,238.6
Interest payable	<u>(604.2)</u>	<u>(476.3)</u>	<u>(970.3)</u>
Net interest income	142.7	135.2	268.3
Average balances			
Interest earning assets	21,487.8	18,345.3	18,979.2
Interest bearing liabilities	20,601.0	17,392.2	18,021.3
Interest margin	1.33%	1.47%	1.41%
Interest spread	1.09%	1.19%	1.14%

Interest receivable and payable represents amounts reported in the Profit and Loss account adjusted to include interest recorded by the special purpose securitisation companies (see note 11). Interest bearing assets and liabilities have similarly been adjusted for amounts included in the special purpose securitisation companies. Interest margin has been calculated by reference to average interest earning assets. 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.

3. Deferred Mortgage Incentive Costs

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

	Six months to 30 June		Full Year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Balance Sheet:			
Opening balance	164.5	103.7	103.7
Additions	115.0	88.6	197.6
Amortisation	<u>(88.1)</u>	<u>(64.2)</u>	<u>(136.8)</u>
Closing balance	<u>191.4</u>	<u>128.1</u>	<u>164.5</u>
Profit and Loss Account:			
Amortisation	65.1	49.4	104.4
Current year immediate write off	<u>23.0</u>	<u>14.8</u>	<u>32.4</u>
	<u>88.1</u>	<u>64.2</u>	<u>136.8</u>

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4. Other Income

	Six months to 30 June		Full Year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Commissions	27.5	21.8	54.3
Fees (net of service charges)	21.7	17.4	36.0
Securitisation income	4.9	-	0.5
Others and subsidiaries	8.1	6.6	12.5
Total	<u>62.2</u>	<u>45.8</u>	<u>103.3</u>

5. Operating Expenses

	Six months to 30 June		Full Year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Staff costs	28.3	26.0	53.6
Other expenses	29.9	27.1	57.9
Depreciation	4.7	4.4	9.0
Total	<u>62.9</u>	<u>57.5</u>	<u>120.5</u>

1999 full year operating expenses include £3.6 million non recurring costs associated with the reorganisation of the distribution network.

The average number of persons employed by the Group was as follows:

	Full Time		Full Year
	Six months to 30 June		
	<u>2000</u>	<u>1999</u>	
Core business	2,375	2,255	2,175
Subsidiaries - administration	-	20	21
- direct	-	897	883
Total	<u>2,375</u>	<u>3,172</u>	<u>3,079</u>

	Part Time		Full Year
	Six months to 30 June		
	<u>2000</u>	<u>1999</u>	
Core business	557	516	567
Subsidiaries - direct	-	883	888
Total	<u>557</u>	<u>1,399</u>	<u>1,455</u>

Figures for 2000 exclude the effect of Regency Care Homes as the care homes business is held for disposal.

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6. Provisions for Losses on Loans and Advances

	Six months to 30 June		Full Year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Provisions charge:			
Specific			
Secured on residential property	1.8	3.6	7.9
Other secured	-	-	0.2
Unsecured	3.8	1.4	3.6
	<u>5.6</u>	<u>5.0</u>	<u>11.7</u>
General			
Secured on residential property	1.0	-	(4.2)
Other secured	0.2	-	1.1
Unsecured	1.6	1.4	3.3
	<u>2.8</u>	<u>1.4</u>	<u>0.2</u>
Total provision charge	<u>8.4</u>	<u>6.4</u>	<u>11.9</u>
% of mean advances to customers	0.10%	0.08%	0.08%
Provisions balance:			
Specific			
Secured on residential property	7.5	9.0	9.3
Other secured	2.5	3.4	2.5
Unsecured	5.4	2.3	3.2
Total	<u>15.4</u>	<u>14.7</u>	<u>15.0</u>
General			
Secured on residential property	16.4	19.6	16.0
Other secured	7.4	6.1	6.5
Unsecured	6.9	3.5	5.4
Total	<u>30.7</u>	<u>29.2</u>	<u>27.9</u>
Total provision balance	<u>46.1</u>	<u>43.9</u>	<u>42.9</u>
% of period end advances to customers	0.26%	0.28%	0.27%

7. Residential Mortgage Arrears

	Six months to 30 June				Full Year	
	<u>2000</u>		<u>1999</u>		<u>1999</u>	
	Cases	% of Total Mortgages	Cases	% of Total Mortgages	Cases	% of Total Mortgages
3 - 6 months	1,706	0.5%	1,976	0.6%	1,749	0.5%
6 - 12 months	757	0.2%	1,069	0.3%	870	0.3%
Over 12 months	340	0.1%	627	0.2%	447	0.1%
Total	<u>2,803</u>	<u>0.8%</u>	<u>3,672</u>	<u>1.1%</u>	<u>3,066</u>	<u>0.9%</u>

NORTHERN ROCK GROUP INTERIM RESULTS

8. Earnings per Share

	Six months to 30 June		Full Year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Profit after tax (page 7)	84.5	75.8	143.5
Underlying profit after tax	84.5	75.8	157.7

1999 full year underlying profit after tax represents profit after tax adjusted for non recurring costs (£3.6 million) and the provision for loss on the disposal of care homes (£12.2 million) together with the associated adjustment to taxation and the covenant to The Northern Rock Foundation. The half year figures for 2000 and 1999 do not require adjustment.

Weighted average number of shares in issue	426.2m	443.6m	443.5m
Basic EPS	19.8p	17.1p	32.4p
Underlying EPS	19.8p	17.1p	35.6p

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

Fully diluted weighted average number of shares in issue	427.0m	444.2m	443.9m
Fully diluted EPS	19.8p	17.1p	32.3p
Underlying fully diluted EPS	19.8p	17.1p	35.5p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 0.8 million (30 June 1999: 0.6 million, 31 December 1999: 0.4 million) potentially dilutive Ordinary shares resulting from options granted under The Northern Rock Sharesave Scheme.

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.

NORTHERN ROCK GROUP INTERIM RESULTS

9. 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>2000</u>	<u>1999</u>	<u>1999</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Type of lending			
Fixed rate (long term)	3%	9%	8%
Fixed rate (short term)	55%	41%	40%
Discount	5%	28%	21%
Cashback	9%	22%	21%
Together	26%	-	10%
HERM	2%	-	-
Type of customer			
First time buyer	30%	22%	23%
Next time buyer	47%	50%	50%
Remortgage	23%	28%	27%
Geographic spread			
North	17%	20%	19%
Scotland	9%	12%	11%
Midlands	28%	25%	25%
South	46%	43%	45%

10. Loans and Advances to Customers

	<u>30 June</u>	<u>30 June</u>	<u>31 December</u>
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Advances secured on residential property	16,108.2	14,992.5	15,215.2
Advances secured on residential property (securitised)	1,255.6	-	576.3
Adjusted total advances secured on residential property	<u>17,363.8</u>	<u>14,992.5</u>	<u>15,791.5</u>
Other secured advances	758.2	467.5	548.5
Unsecured loans	586.8	220.6	317.0
	<u>18,708.8</u>	<u>15,680.6</u>	<u>16,657.0</u>
Less: non recourse finance	(1,231.0)	-	(565.8)
	<u>17,477.8</u>	<u>15,680.6</u>	<u>16,091.2</u>

11. Loans and Advances to Customers Subject to Securitisation

Securitised advances are subject to non-recourse finance arrangements. These loans have been purchased at par by special purpose securitisation companies from Northern Rock plc, and have been funded through the issue of mortgage-backed bonds.

NORTHERN ROCK GROUP INTERIM RESULTS

11. Loans and Advances to Customers Subject to Securitisation (continued)

Securitisation transactions entered into are as follows:

Securitisation company	Date of securitisation	Gross assets securitised £m	Subordinated loans made by Group £m
Granite Mortgages 99-1 plc	1 October 1999	600	10.8
Granite Mortgages 00-1 plc	1 March 2000	750	13.1

Northern Rock plc does not own directly, or indirectly, any of the share capital of any of the above securitisation companies.

The results of the Group incorporate the following in respect of the above securitisation companies:

	Six months to 30 June		Full Year
	<u>2000</u> £m	<u>1999</u> £m	<u>1999</u> £m
Interest receivable	39.5	-	10.3
Interest payable	(34.4)	-	(9.2)
Net interest receivable	<u>5.1</u>	<u>-</u>	<u>1.1</u>
Other income	0.2	-	-
Administrative and other expenses	(0.4)	-	(0.6)
Profit for the financial period	<u>4.9</u>	<u>-</u>	<u>0.5</u>

12. Analysis of Customer Accounts

	30 June <u>2000</u> £m	30 June <u>1999</u> £m	31 December <u>1999</u> £m
Branch accounts	1,589.2	1,809.6	1,737.4
Postal accounts	4,141.8	3,865.2	4,012.1
Offshore accounts	1,862.0	1,785.3	1,721.0
Telephone accounts	4,048.2	2,909.1	3,619.1
Total retail balances	<u>11,641.2</u>	<u>10,369.2</u>	<u>11,089.6</u>
Other customer accounts	2,421.7	1,876.5	1,656.0
	<u>14,062.9</u>	<u>12,245.7</u>	<u>12,745.6</u>

NORTHERN ROCK GROUP INTERIM RESULTS

13. Capital and Reserves

	Ordinary Shares		Foundation Shares		Total Share Capital	
	Number	£m	Number	£m	Number	£m
Issued and fully paid						
At 1 January 2000	444.0m	111.0	78.4m	19.6	522.4m	130.6
Repurchase of shares	(25.2m)	(6.3)	(4.0m)	(1.0)	(29.2m)	(7.3)
Shares issued	2.4m	0.6	-	-	2.4m	0.6
At 30 June 2000	421.2m	105.3	74.4m	18.6	495.6m	123.9
		Share Premium Account £m		Capital Redemption Reserve £m		Profit and Loss Account £m
At 1 January 2000		-		-		752.9
Repurchase of shares		-		7.3		(89.3)
Shares issued		6.8		-		(2.2)
Reversal of accrued dividends on repurchased shares		-		-		2.1
Profit retained for period		-		-		63.2
At 30 June 2000		6.8		7.3		726.7

During the six months ended 30 June 2000 Ordinary shares with a nominal value of £6.3 million and Foundation shares with a nominal value of £1.0 million were repurchased for cancellation at a total cost of £89.3 million which has been charged against profit and loss account reserves.

The Northern Rock Qualifying Employee Share Ownership Trust ('the QUEST') was established to acquire shares in the Company for the benefit of its employees and Directors. On 17 March 2000 the Company provided £7.4 million for this purpose and the QUEST subscribed at market value of 307p for 2.4 million of the Company's Ordinary shares of 25p each. These shares have been allocated to the Company's Employee Share Save Scheme with an exercise price of 215p. Consequently the difference between the subscription price and exercise price amounting to £2.2 million has been charged directly against reserves.

NORTHERN ROCK GROUP INTERIM RESULTS

14. Capital Structure

	30 June <u>2000</u> <u>£m</u>	30 June <u>1999</u> <u>£m</u>	31 December <u>1999</u> <u>£m</u>
Tier 1			
Share capital	123.9	130.6	130.6
Share premium account	6.8	-	-
Capital redemption reserve	7.3	-	-
Profit and loss account	<u>726.7</u>	<u>725.5</u>	<u>752.9</u>
Total Tier 1 capital	<u>864.7</u>	<u>856.1</u>	<u>883.5</u>
Upper Tier 2			
Perpetual subordinated debt	241.3	241.3	241.3
General provisions	<u>30.7</u>	<u>29.2</u>	<u>27.9</u>
Total Upper Tier 2 capital	<u>272.0</u>	<u>270.5</u>	<u>269.2</u>
Lower Tier 2			
Term subordinated debt	<u>247.4</u>	<u>255.6</u>	<u>251.4</u>
Total Tier 2 Capital	<u>519.4</u>	<u>526.1</u>	<u>520.6</u>
Deductions	(8.4)	(1.3)	(3.7)
Total capital	<u><u>1,375.7</u></u>	<u><u>1,380.9</u></u>	<u><u>1,400.4</u></u>
Risk weighted assets	<u><u>11,515.7</u></u>	<u><u>9,569.8</u></u>	<u><u>10,135.3</u></u>
Tier 1 ratio (%)	7.5%	8.9%	8.7%
Tier 2 to Tier 1 ratio (%)	60.0%	61.5%	58.9%
Total capital (%)	11.9%	14.4%	13.8%

15. Dividends

Ex dividend date	25 September 2000
Record date	29 September 2000
Payment date	31 October 2000

NORTHERN ROCK GROUP INTERIM RESULTS

16. Reconciliation of Operating Profit to Net Operating Cash Inflows

	Six months to 30 June		Full Year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Operating profit	122.4	111.5	227.3
Increase in prepayments and accrued income	(63.9)	(53.1)	(135.9)
(Decrease)/increase in accruals and deferred income	(36.5)	(44.7)	30.4
Provision for bad and doubtful debts	8.4	6.4	11.9
Loans and advances written off net of recoveries	(5.2)	(5.3)	(11.8)
Depreciation and amortisation	4.7	4.4	9.0
Interest on subordinated liabilities	21.6	14.1	34.6
Other non-cash movements	(4.6)	(16.3)	(19.3)
Net cash inflow from trading activities	<u>46.9</u>	<u>17.0</u>	<u>146.2</u>
Net increase in loans and advances to banks and customers	(1,431.5)	(689.5)	(2,006.0)
Net increase in deposits by banks and customer accounts	1,499.2	126.5	349.4
Net increase in debt securities in issue	937.9	684.7	1,796.4
Net (increase)/decrease in other assets	(9.6)	0.8	(3.6)
Net increase/(decrease) in other liabilities	8.1	(4.1)	(1.4)
Net cash inflow from operating activities	<u>1,051.0</u>	<u>135.4</u>	<u>281.0</u>

17. 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 1999 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 21 July 2000.

The report is also available on the Northern Rock website www.northernrock.co.uk from 8.30am on 20 July 2000.

NORTHERN ROCK GROUP INTERIM RESULTS

18. Basis of Preparation

Accounting policies and methods remain unchanged from those used in the preparation of the 1999 annual accounts.

19. Independent Review Report to Northern Rock plc

Introduction

We have been instructed by the Company to review the financial information set out on pages 7 to 10 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 Financial Services Authority 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 2000.

PricewaterhouseCoopers
Chartered Accountants

Newcastle upon Tyne
20 July 2000

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