17 July 2003

NORTHERN ROCK GROUP INTERIM RESULTS

Northern Rock plc today issued its interim results for the six months ended 30 June 2003.

Highlights

Profits

- Pre tax profits up by 22.0% to £186.2 million
- Total income up by 21.7% to £319.5 million

Operating Performance

- Total assets under management up by 15.7%
- Record gross lending of £7.8 billion - an increase of 34.4%
- Record net lending of £3.9 billion - an increase of 11.4%
- Share of UK net mortgage lending to May 2003 of 9.3%
- Residential arrears significantly below the industry average
- Strong funding franchise - retail deposits rise by £320 million, non-retail by £1,654 million and further securitisation issues of £5,500 million
- Upgrade in long term credit rating by Moody's to A1

Costs

- Ratio of costs to assets under management improved to 0.42% from 0.48%
- Ratio of costs to income improved to 29.7% from 30.8%

Returns

- Earnings per share of 32.1p - an increase of 24.9%
- Interim dividend per share of 7.5p - an increase of 15.4%
- Return on equity up to 21.0%

Adam J Applegarth, Chief Executive, said:

"Our 2003 first half results are encouraging. Northern Rock successfully combines high growth together with low risks.

Whilst we still expect the housing market to slow further, our small size, large cost advantage, ability to generate gross lending and retain existing customers, all stand us in excellent shape to continue to deliver for the foreseeable future."

NORTHERN ROCK GROUP INTERIM RESULTS

Overview

Northern Rock has again achieved strong financial and operational performance in the first half of the year. As in 2002, key highlights are post tax profits growing faster than the growth in risk weighted assets, strong volume growth, excellent asset quality and a continued reduction in our unit cost ratios. Our risk profile has also been enhanced by the disposal of our small credit card portfolio to The Co-operative Bank at the end of May 2003.

Our three funding arms, retail, non-retail and securitisation, have all performed well, underpinning our growth in lending volumes. We continue to develop each of our funding sources with the objective of diversifying the type, geographic location and duration of all types of funding.

Lending

During the first half of 2003 we again achieved record volumes of lending. Total gross lending was £7,845 million, an increase of 34.4% (30 June 2002 - £5,839 million) with net lending of £3,917 million, an increase of 11.4% (30 June 2002 - £3,515 million). The pipeline of new business at the end of the first half was £4.3 billion some 26% higher than at the end of last year.

The housing market remains in reasonable condition underpinned by low interest rates, low unemployment and a restricted supply of new housing. We anticipate the number of housing transactions will be around 1.4 million in 2003 and 2004. We expect house price growth to continue to slow to around the growth in average earnings over the next year, reflecting to some extent the reduction in first time buyer activity. The first half of 2003 saw a significant increase in the level of re-mortgage activity as customers took advantage of house price increases and competitive loan pricing. We anticipate that re-mortgaging will remain buoyant particularly as a result of a reduction in the incidence of overhanging redemption charges in recent years, which reduces the cost to the customer of changing products or lender.

Against this background we achieved strong gross residential lending of £6,947 million (30 June 2002 - £4,809 million) an increase of 44.5%. We expect gross lending will benefit from the introduction of statutory legislation (anticipated October 2004) strengthening the hands of the large mortgage clubs with whom we have built excellent relationships over the last few years. Net lending was £3,800 million (30 June 2002 - £2,903 million) an increase of 30.9%. Based upon reported statistics to the end of May our share of gross lending for the first five months of the year was 5.8%, net lending 9.3% and redemptions 3.9%, all comparing favourably with our anticipated share of stock of mortgages at the half year of 4.6%. Our success in retaining customers derives from the strengthening of our customer retention activities together with our strategy of allowing existing customers, subject to contractual terms, to transfer to any product available to new customers. This has resulted in us being able to retain 60% of potential re-mortgage customers and 50% of people moving house.

The risk profile of new residential lending continued to be very strong in the first half of 2003. The proportion of lending below 90% LTV increased to 69% compared with 61% during 2002. Only 4.0% of loans were over £500,000. Lending to first time buyers fell to 22% resulting in almost 80% of new borrowers having a proven payment history and we maintained a good diversified geographic spread of lending. The average indexed LTV of our mortgage book is now 56%, providing strong cover in the event of default.

Our mix of new residential lending in the first half of 2003 reflected customers' preferences for fixed rate products, taking advantage of the low interest rate environment, although demand remained strongest for short term fixes. Stand-alone fixed rate lending accounted for 62% of completions, comprising 50% short term fixes, up to two years, and 12% longer term fixes, mainly up to a maximum of seven years.

Our credit bundling product "together", which combines a secured and unsecured loan at one interest rate and one monthly payment, continued to be popular. New business volumes for "together" products amounted to £1.8 billion of which £1.5 billion were advances secured on residential lending representing 22% of new residential lending. Of the £1.5 billion, £0.9 billion was fixed rate lending and £0.6 billion variable rate. Sales of our equity release product "HERM" continued to increase steadily with completions of £218 million resulting in a book of £822 million at 30 June 2003.

Lending (continued)

Growth of our unsecured lending portfolio has been cautious. Total personal unsecured gross lending was £690 million (30 June 2002 - £836 million) and net lending £50 million (30 June 2002 - £509 million). Of these amounts "bundled" unsecured lending accounted for 41.8% (30 June 2002 - 44.3%) of gross and 63.4% (30 June 2002 - 60.9%) of net respectively. The risk profile of our unsecured lending portfolio has been improved following the sale of our £217 million credit card book at the end of May 2003.

Equally, we remain cautious about the expansion of our commercial mortgage portfolio given the economic uncertainty in this sector. Gross secured commercial lending amounted to £208 million (30 June 2002 - £194 million) and net lending amounted to £67 million (30 June 2002 - £103 million).

Arrears and Possessions

Residential mortgage arrears showed no deterioration from the year end position and remained low despite the growth in mortgage balances under management. 2,847 accounts were three months or more in arrears at 30 June 2003 representing only 0.55% (31 December 2002 – 0.56%) of all mortgage accounts, significantly less than the UK average at 31 December 2002 of 1.03%. The "together" secured advances payment performance was also significantly better than the UK average with three months plus arrears stable at 0.78%. 178 properties were in possession at 30 June 2003 compared with 170 at the end of 2002.

Other loan portfolios continued to perform extremely well, with only 0.3% of our commercial loans (31 December 2002 - 0.3%) and 1.05% of our personal unsecured loans (31 December 2002 - 1.3%) three months or more in arrears. The "together" unsecured loans continued to perform significantly better than traditional personal unsecured loans with only 0.83% three months or more in arrears (31 December 2002 – 0.69%).

Retail Funding

Our retail franchise remains an important part of our funding strategy with total balances at 30 June 2003 amounting to £15.7 billion in almost 1.5 million accounts. Retail balances increased by £320 million, including accumulated interest of £279 million. We have a broad distribution platform of branches, postal, telephone, on-line, offshore and Ireland which we will continue to develop. In particular we have seen strong growth in our on-line accounts, which now have balances of £2.7 billion, and in our ISA accounts with balances of £1.5 billion.

Non-Retail Funding

Total net non-retail funding amounted to £1,654 million in the first half resulting in non-retail balances of £15.3 billion at 30 June 2003. We continue to diversify our investor base and completed our first euro fixed rate issue, raising _600 million. In addition we raised a further £1.7 billion from European and US investors. Of our total non-retail funding approximately half has an original maturity of over 12 months providing a balanced split of short term and medium term funding.

On 9 July 2003 Moody's confirmed an upgrade to our long term credit rating from A2 to A1. This will be beneficial to the diversification of our investor base and to the cost of non-retail funding.

Securitisation

Our residential mortgage securitisation programme is firmly established as a reliable source of funding and in the first half of 2003 raised a further £5.5 billion in two issues. To date we have completed nine residential securitisation issues and one commercial mortgage issue raising £16.8 billion with £13.8 billion outstanding at 30 June 2003. We continue to ensure that the average LTV of mortgages securitised reflect those of our recently originated mortgages. In our latest transaction we also extended the life of the deal from five years to seven years and for the first time introduced a fixed rate sterling tranche. Our issues continue to be noticeably oversubscribed and in the first half of 2003 over 60% of the funds raised were sourced from the USA and mainland Europe.

At 30 June 2003 total securitised assets under management amounted to £14.3 billion, representing 29.5% of total assets under management. Securitised bonds represent 30.8% of our total funding balances, including retail and non-retail balances, as at 30 June 2003.

NORTHERN ROCK GROUP INTERIM RESULTS

Assets

Assets under management, including securitised mortgage balances, at 30 June 2003 amounted to £48.5 billion, an increase of 15.7% compared with £41.9 billion at 31 December 2002, a rise of 34.7% from June 2002. The balance sheet, including the securitised bonds (shown as a deduction from assets) has grown by 20.3% to £34.7 billion compared with £28.9 billion at 30 June 2002.

Total Income and Margins

Reported total income grew by 21.7% compared with the first half of 2002 to £319.5 million. On an underlying basis, excluding the surplus on disposal of the credit card portfolio of £7.3 million (see note 8), total income was £312.2 million, an increase of 18.9%. Reported total income as a proportion of mean total assets at 1.90% is the same as in the first half of 2002 with the underlying ratio being 1.85%. In line with the rapid growth in securitised assets, the ratio of reported total income to mean total assets under management eased to 1.41% or 1.38% on an underlying basis, compared with 1.56% in the first half of 2002.

Group interest margin and spread is calculated taking into account interest recorded in the profit and loss account together with that recorded in the Granite and Dolerite securitisation companies. Similarly, average interest earning assets and liabilities include those on balance sheet and those in the securitisation companies. In the first half of 2003 interest spread was 0.92%, a 6bp reduction from the first half of 2002, reflecting the impact of securitisation, lending mix and the increased level of fixed rate lending linked to re-mortgage activity in particular. Net interest margin reduced by 8bp to 1.00% reflecting the change in spreads.

Expenses

In the first half of 2003 our cost base has absorbed the effects of extra resources in our retention programme, the costs of running the Legal & General banking subsidiaries acquired in 2002 as well as additional pension and national insurance costs. Our operating expenses increased by 17.6% compared with the first half of 2002. This is significantly less than the growth in assets under management of 34.7% over the last twelve months and the underlying growth in total income compared with the first half of 2002 of 18.9%. As a result the ratio of costs to assets under management fell to 0.42% from 0.48% in the equivalent period last year and our costs to underlying income ratio fell to 30.4% from 30.8%. Our strategic targets of cost growth being less than income growth and in the band of one half to two thirds of assets under management growth remain intact.

The Northern Rock Foundation

Northern Rock donates 5% of its pre tax profit to The Northern Rock Foundation under a deed of covenant. Such donations are used to support community and charitable causes mainly, but not exclusively, in the North East of England. The donation from 2003 first half profits amounts to £9.3 million (30 June 2002 - £7.6 million). Since flotation, £75.8 million has been made available for charities through The Northern Rock Foundation.

Provisions

The total charge for provisions for bad and doubtful debts amounted to £26.5 million for the first half (30 June 2002 - £20.9 million) representing 0.22% of mean advances to customers (30 June 2002 - 0.20%). The increase in the total charge principally reflects the growth of lending and the cessation of mortgage indemnity insurance on residential lending with effect from the beginning of the year.

Taxation

The effective tax rate for the first half was 29% compared with 30.1% for the same period in 2002. The reduction reflects prior year adjustments together with a 0.2% benefit as a result of the favourable tax treatment of shares maturing under employee share save schemes. We anticipate that the ongoing effective tax rate will be in the range of 29% - 30%.

NORTHERN ROCK GROUP INTERIM RESULTS

Profits and EPS

Reported profit before tax, including the £7.3 million surplus on the disposal of the credit card portfolio, amounted to £186.2 million, an increase of 22.0%. On an underlying basis profit before tax increased by 17.4% to £179.2 million. Reported profit after tax increased by 23.9% to £132.2 million, generating a return on equity of 21.0% compared with 19.3% in the first half of 2002. On an underlying basis profit after tax was £127.3 million, an increase of 19.3%, generating an underlying return on equity of 20.2%.

Reported earnings per share grew by 24.9% to 32.1p in the first half of 2003, with underlying earnings per share growing by 20.2% to 30.9p.

Dividends

The proposed interim dividend is 7.5p per share payable on 31 October 2003 to shareholders on the register on 26 September 2003, a 15.4% increase over the 2002 interim dividend of 6.5p.

Capital

At 30 June 2003 total capital amounted to £2,755 million resulting in a total capital ratio of 15.4%. Tier 1 capital was £1,738.9 million and the Tier 1 ratio 9.7%, comfortably above our internal minimum target of 8.0%. The comparable ratios at 31 December 2002 were 15.5% and 9.4% respectively.

Our preparations in relation to the implementation of the Basel II proposals for capital are progressing according to plan. Our assessment of our credit portfolios confirms that we believe significantly lower levels of capital should be held. Further work is required to establish the likely impact of other aspects of the Basel proposals and these assessments are ongoing. Until Basel II is implemented we will continue to manage actively our capital base to minimise our cost of capital and to maximise capital flexibility.

Future Change of Non-Executive Chairman

In January 2004, our non-executive Chairman, Sir John Riddell, will celebrate his seventieth birthday. In line with our usual custom Sir John will retire from the Board immediately following the Annual General Meeting to be held on 27 April 2004. Sir John will be succeeded by Dr Matt Ridley who is currently Deputy Chairman and the Senior Independent Director.

Outlook

During the second half of 2003 we expect the housing market to slow but this will be more than offset by levels of re-mortgaging, resulting in growth in Northern Rock's assets under management being well within our strategic target of 15% to 25%. Our growth will be deliberately focused on residential lending which has lower margins than our commercial and personal credit lending but is lower risk.

All of our funding programmes will continue to be developed. New sources of funding will be sought for all funding types supporting our growth into the future.

We remain confident of the continued success of the Northern Rock business model.

NORTHERN ROCK GROUP INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	Six months to 30 June			Full Year
		2003	2002	2002
		£m	£m	£m
Key Performance Figures				
Gross lending		7,845	5,839	12,584
Net lending		3,917	3,515	6,697
Net retail funding		320	678	773
Securitisation issues		5,504	2,920	5,668
Net non-retail funding		1,654	1,448	3,232
Key Ratios - Balance Sheet		%	%	%
Growth in assets under management		15.7%	15.7%	34.7%
Balance sheet growth		6.3%	9.3%	23.7%
Growth in risk weighted assets		3.4%	5.4%	16.6%
Total capital ratio		15.4%	13.9%	15.5%
Tier 1 ratio		9.7%	8.6%	9.4%
	Underlying	Reported	Reported	Reported
Key Ratios - Profit and Loss	%	%	%	%
Total income : mean balance sheet assets	1.85%	1.90%	1.90%	1.90%
Total income : mean assets under management	1.38%	1.41%	1.56%	1.54%
Interest margin	1.00%	1.00%	1.08%	1.09%
Interest spread	0.92%	0.92%	0.98%	0.99%
Cost to income ratio	30.4%	29.7%	30.8%	30.1%
Cost to asset ratio	0.56%	0.56%	0.58%	0.57%
Cost to assets under management ratio	0.42%	0.42%	0.48%	0.46%
Provision charge as a % of mean advances to customers	0.22%	0.22%	0.20%	0.19%
Pre tax profit growth	17.4%	22.0%	16.3%	18.0%
Effective tax rate	29.0%	29.0%	30.1%	29.6%
Post tax profit growth	19.3%	23.9%	16.6%	19.1%
Post tax return on mean equity	20.2%	21.0%	19.3%	20.2%
Post tax return on mean assets	0.76%	0.78%	0.77%	0.78%
Post tax return on mean assets under management	0.56%	0.58%	0.64%	0.63%
Shareholder Information	p/share	p/share	p/share	p/share
Earnings per share	30.9p	32.1p	25.7p	55.6p
Fully diluted earnings per share	30.6p	31.8p	25.5p	55.1p
Dividend per share	7.5p	7.5p	6.5p	20.2p

Notes

Underlying ratios in 2003 exclude the effect of the disposal of the credit card portfolio. A reconciliation of reported and underlying profits for the six months ended 30 June 2003 is set out in note 9.

Cost ratios for the full year 2002 exclude £2.3 million non-recurring costs relating to the acquisition of the banking subsidiaries of Legal & General.

Asset growth in 2003 represents the growth of total assets between 31 December 2002 and 30 June 2003.

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

NORTHERN ROCK GROUP INTERIM RESULTS

FINANCIAL INFORMATION

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months to 30 June		Full Year
		2003	2002	2002
		(Unaudited)	(Unaudited)	(Audited)
	Note	£m	£m	£m
Interest receivable				
interest receivable and similar income arising from debt securities		78.6	75.9	164.0
other interest receivable and similar income		628.8	597.7	1,238.3
		707.4	673.6	1,402.3
Interest payable		(572.6)	(535.2)	(1,117.2)
Income from equity shares and variable yield securities		7.2	4.6	14.5
Net interest income		142.0	143.0	299.6
Fees and commissions receivable		103.4	91.8	186.3
Fees and commissions payable		(18.4)	(10.9)	(28.8)
Securitisation interest receivable		329.1	172.3	415.3
Securitisation interest payable		(250.5)	(135.0)	(323.7)
Other operating income		13.9	1.4	12.3
Total non-interest income	4	177.5	119.6	261.4
Total income	1	319.5	262.6	561.0
Administrative expenses				
operating		(87.3)	(74.6)	(158.3)
covenant to The Northern Rock Foundation		(9.3)	(7.6)	(16.3)
Total administrative expenses		(96.6)	(82.2)	(174.6)
Depreciation and amortisation				
tangible fixed assets		(7.7)	(6.2)	(13.0)
goodwill		(1.8)	-	(1.5)
Total depreciation and amortisation		(9.5)	(6.2)	(14.5)
Operating expenses	5	(106.1)	(88.4)	(189.1)
Provisions for bad and doubtful debts	6	(26.5)	(20.9)	(43.1)
Amounts written off fixed asset investments		(0.7)	(0.7)	(2.6)
Profit on ordinary activities before tax		186.2	152.6	326.2
Tax on profit on ordinary activities		(54.0)	(45.9)	(96.5)
Profit on ordinary activities after tax		132.2	106.7	229.7
Dividends		(31.2)	(26.9)	(83.4)
Profit retained for the period		101.0	79.8	146.3
Earnings per share	10	32.1p	25.7p	55.6p
Underlying earnings per share	10	30.9p	25.7p	55.6p
Fully diluted earnings per share	10	31.8p	25.5p	55.1p
Underlying fully diluted earnings per share	10	30.6p	25.5p	55.1p

There were no material gains or losses other than the profit for each period shown above.

NORTHERN ROCK GROUP INTERIM RESULTS

CONSOLIDATED BALANCE SHEET

	Note	30 June 2003 (Unaudited) £m	30 June 2002 (Unaudited) £m	31 December 2002 (Audited) £m
Assets				
Cash and balances at central banks		7.0	7.6	10.7
Loans and advances to banks		4,360.0	2,011.2	2,523.5
Loans and advances to customers		23,958.9	21,910.7	24,598.6
Securitised advances		14,283.5	7,425.4	9,607.6
Less: non-recourse finance		(13,765.0)	(7,155.7)	(9,254.6)
	12	24,477.4	22,180.4	24,951.6
Debt securities		4,511.3	3,542.2	3,850.6
Equity shares and other variable yield securities		421.6	380.4	414.7
Intangible fixed assets		32.5	-	34.3
Tangible fixed assets		160.2	136.4	152.7
Other assets		139.6	72.6	124.4
Prepayments and accrued income		619.7	528.3	602.7
Total assets		34,729.3	28,859.1	32,665.2
Liabilities				
Deposits by banks		1,653.7	1,145.3	1,205.2
Customer accounts	14	18,278.5	16,493.1	17,944.3
Debt securities in issue		11,036.8	8,285.4	9,846.0
Other liabilities		401.8	298.2	393.8
Accruals and deferred income		415.8	374.5	443.4
Provisions for liabilities and charges		12.6	-	3.4
Subordinated liabilities		1,119.5	819.5	1,119.5
Reserve capital instruments		300.0	300.0	300.0
Tier one notes		200.0	-	200.0
Total subordinated liabilities		1,619.5	1,119.5	1,619.5
Called up share capital		123.9	123.9	123.9
Share premium account		6.8	6.8	6.8
Capital redemption reserve		7.3	7.3	7.3
Profit and loss account		1,172.6	1,005.1	1,071.6
Shareholders' funds - equity		1,310.6	1,143.1	1,209.6
Total liabilities		34,729.3	28,859.1	32,665.2
Assets under management		48,494.3	36,014.8	41,919.8

NORTHERN ROCK GROUP INTERIM RESULTS

CONSOLIDATED CASHFLOW STATEMENT

	Six months to 30 June		Full Year
	2003	**2002**	**2002**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	£m	**£m**	**£m**
Net cash inflow from operating activities (note 16)	1,052.0	101.1	106.1
Returns on investments and servicing of finance	(34.7)	(25.7)	(68.4)
Taxation	(45.5)	(36.4)	(91.4)
Capital expenditure and financial investment	(620.1)	(84.8)	(199.9)
Acquisitions and disposals	217.0	-	(127.6)
Equity dividends paid	(56.7)	(47.3)	(74.1)
Net cash inflow/(outflow) before financing	512.0	(93.1)	(455.3)
Financing	-	225.0	725.0
Increase in cash	512.0	131.9	269.7

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30 June	30 June	31 December
	2003	**2002**	**2002**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	£m	**£m**	**£m**
Profit retained	101.0	79.8	146.3
Opening shareholders' funds	1,209.6	1,063.3	1,063.3
Closing shareholders' funds	1,310.6	1,143.1	1,209.6

NOTES TO THE RESULTS

1. Total Income

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Full Year 2002 £m
Net interest income	142.0	143.0	299.6
Other income	177.5	119.6	261.4
Total income	319.5	262.6	561.0
Mean balance sheet assets	33,697.3	27,634.3	29,537.3
Mean assets under management	45,207.1	33,565.6	36,518.1
Total income : mean balance sheet assets	1.90%	1.90%	1.90%
Total income : mean balance sheet assets (underlying)	1.85%	1.90%	1.90%
Total income : mean assets under management	1.41%	1.56%	1.54%
Total income : mean assets under management (underlying)	1.38%	1.56%	1.54%

The above underlying ratios exclude the effect of the sale of the credit card portfolio (see note 8).

2. Interest Spread and Margin

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Full Year 2002 £m
Interest receivable	1,043.7	850.5	1,832.1
Interest payable	(823.1)	(670.2)	(1,440.9)
Net interest income	220.6	180.3	391.2
Average balances			
Interest earning assets	44,271.2	33,469.8	36,035.5
Interest bearing liabilities	43,376.6	32,714.5	35,207.6
Interest margin	1.00%	1.08%	1.09%
Interest spread	0.92%	0.98%	0.99%

Interest receivable and payable represents amounts reported in the Profit and Loss account adjusted to include interest recorded by the Granite and Dolerite securitisation companies (see note 13). Interest bearing assets and liabilities have similarly been adjusted for amounts included in the 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 2003 £m	Six months to 30 June 2002 £m	Full Year 2002 £m
Balance Sheet:			
Opening balance	257.5	230.7	230.7
Acquisitions	-	-	1.5
Additions	145.2	118.4	263.0
Amortisation	(148.1)	(103.8)	(237.7)
Closing balance	254.6	245.3	257.5
Profit and Loss Account:			
Amortisation	145.5	100.5	230.0
Current year immediate write off	2.6	3.3	7.7
	148.1	103.8	237.7

4. Other Income

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Full Year 2002 £m
Commissions	33.9	37.8	71.2
Fees (net of service charges)	49.5	40.0	79.4
Subsidiaries and others	14.9	7.5	19.5
	98.3	85.3	170.1
Securitisation income	79.2	34.3	91.3
Total	177.5	119.6	261.4

5. Operating Expenses

Operating expenses excluding the covenant to The Northern Rock Foundation and amortisation of goodwill are as follows:

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Full Year 2002 £m
Staff costs	49.2	40.5	85.1
Other expenses	38.1	34.1	70.9
Depreciation	7.7	6.2	13.0
Total recurring expenses	95.0	80.8	169.0
Non-recurring costs	-	-	2.3
Total operating expenses	95.0	80.8	171.3

Non-recurring costs represent costs incurred in relation to the acquisition of the banking subsidiaries of Legal & General.

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

	Six months to 30 June 2003	Six months to 30 June 2002	Full Year 2002
Full time	3,385	2,970	3,020
Part time	940	761	792

6. Provisions for Losses on Loans and Advances

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Full Year 2002 £m
Provisions charge:			
Specific			
Secured on residential property	1.3	1.2	2.3
Other secured	0.1	-	0.2
Unsecured	15.5	17.4	27.5
	16.9	18.6	30.0
General			
Secured on residential property	7.8	1.1	3.6
Other secured	0.7	(2.5)	(1.3)
Unsecured	1.1	3.7	10.8
	9.6	2.3	13.1
Total provision charge	26.5	20.9	43.1
% of mean advances to customers	0.22%	0.20%	0.19%

	30 June 2003 £m	30 June 2002 £m	31 December 2002 £m
Provisions balance:			
Specific			
Secured on residential property	2.5	3.2	2.7
Other secured	1.4	1.1	1.3
Unsecured	22.1	34.6	29.8
Total	26.0	38.9	33.8
General			
Secured on residential property	29.4	15.7	22.2
Other secured	9.1	7.2	8.4
Unsecured	26.5	11.4	18.5
Total	65.0	34.3	49.1
Total provision balance	91.0	73.2	82.9
% of period end advances to customers	0.38%	0.33%	0.34%

7. Residential Mortgage Arrears

	30 June 2003		30 June 2002		31 December 2002	
	Cases	%	Cases	%	Cases	%
3 - 6 months	2,020	0.4%	1,622	0.4%	1,946	0.4%
6 - 12 months	712	0.1%	605	0.1%	658	0.2%
Over 12 months	115	-	162	-	133	-
Total	2,847	0.5%	2,389	0.5%	2,737	0.6%

8. Sale of Credit Card Business

On 30 May 2003, the Group sold its credit card portfolio to The Co-operative Bank. The surplus on sale amounted to £7.3 million and is recorded in other income. The credit card portfolio comprised approximately 90,000 accounts with outstanding balances of £217 million. As part of the agreement Northern Rock will offer credit cards, issued by The Co-operative Bank, to Northern Rock's customers under the Northern Rock brand.

9. Underlying Results

A reconciliation of reported and underlying profit before and after tax for the six months ended 30 June 2003 is set out in the following table:

	Profit before tax £m	**Profit after tax £m**
Reported result (page 7)	186.2	132.2
Adjustments:		
Surplus on disposal of credit card portfolio	(7.3)	(7.3)
Covenant to The Northern Rock Foundation	0.3	0.3
Tax effect	-	2.1
Underlying result	179.2	127.3

10. Earnings per Share

Earnings per share figures based upon reported (basic) and underlying profit after tax are as follows:

	Six months to 30 June		**Full Year**
	2003	**2002**	**2002**
Weighted average number of shares in issue	412.2m	414.8m	413.5m
Basic EPS	32.1p	25.7p	55.6p
Underlying EPS	30.9p	25.7p	55.6p

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	415.7m	418.4m	417.1m
Fully diluted EPS	31.8p	25.5p	55.1p
Underlying fully diluted EPS	30.6p	25.5p	55.1p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 3.5 million (30 June 2002: 3.6 million, 31 December 2002: 3.6 million) potentially dilutive Ordinary shares resulting from options granted under employee share schemes.

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.

11. Mortgage Lending

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

	Six months to 30 June 2003 %	Six months to 30 June 2002 %	Full Year 2002 %
Type of lending			
Fixed rate (long term)	12%	19%	17%
Fixed rate (short term)	50%	37%	38%
Discount	12%	7%	9%
Cashback	1%	2%	2%
Together	22%	33%	31%
HERM	3%	2%	3%
Type of customer			
First time buyer	22%	27%	26%
Next time buyer	35%	36%	37%
Remortgage	43%	37%	37%
Geographic spread			
North	15%	16%	16%
Scotland	9%	9%	9%
Midlands	24%	26%	26%
South	52%	49%	49%

12. Loans and Advances to Customers

	30 June 2003 £m	30 June 2002 £m	31 December 2002 £m
Advances secured on residential property	20,308.5	18,703.3	20,918.9
Advances secured on residential property (securitised)	13,825.8	6,913.8	9,098.4
Total advances secured on residential property	34,134.3	25,617.1	30,017.3
Other secured advances	919.5	664.8	786.8
Other secured advances (securitised)	457.7	511.6	509.2
Total other secured advances	1,377.2	1,176.4	1,296.0
Unsecured loans	2,730.9	2,542.6	2,892.9
	38,242.4	29,336.1	34,206.2
Less: non-recourse finance	(13,765.0)	(7,155.7)	(9,254.6)
	24,477.4	22,180.4	24,951.6

13. 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. Securitisation transactions entered into are as follows:

Securitisation company	Date of securitisation	Gross assets securitised £m	Subordinated loans made by Group £m
Residential:			
Granite Mortgages 99-1 plc	1 October 1999	600	10.8
Granite Mortgages 00-1 plc	1 March 2000	750	13.1
Granite Mortgages 00-2 plc	25 September 2000	1,300	25.6
Granite Mortgages 01-1 plc	26 March 2001	1,500	4.7
Granite Mortgages 01-2 plc	28 September 2001	1,500	8.9
Granite Mortgages 02-1 plc	20 March 2002	2,420	25.1
Granite Mortgages 02-2 plc	23 September 2002	2,748	23.9
Granite Mortgages 03-1 plc	27 January 2003	3,010	27.1
Granite Mortgages 03-2 plc	21 May 2003	2,494	22.6
Commercial:			
Dolerite Funding No. 1 plc	24 June 2002	500	19.5

No subordinated debt was issued by Granite Mortgages 01-1 plc to Northern Rock plc in relation to the funding of a first loss reserve fund. However, Granite Mortgages 01-1 plc's parent company (Granite Finance Funding Limited) retained £20 million from the proceeds of the debt issue to fund this reserve. This amount is repayable only after full repayment of the notes issued.

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 2003 £m	Six months to 30 June 2002 £m	Full Year 2002 £m
Interest receivable	329.1	172.3	415.3
Interest payable	(250.5)	(135.0)	(323.7)
Net interest receivable	78.6	37.3	91.6
Other income	4.0	1.8	4.6
Administrative and other expenses	(3.4)	(4.8)	(4.9)
Profit for the financial period	79.2	34.3	91.3

14. Analysis of Customer Accounts

	30 June 2003 £m	30 June 2002 £m	31 December 2002 £m
Branch accounts	2,384.4	1,958.1	2,175.5
Postal accounts	5,303.5	6,135.2	5,442.2
Internet accounts	2,661.2	1,292.3	2,214.7
Offshore accounts	2,479.5	2,442.3	2,385.1
Telephone accounts	1,651.3	2,220.6	1,935.4
Legal & General branded accounts	1,175.9	-	1,183.2
Total retail balances	15,655.8	14,048.5	15,336.1
Other customer accounts	2,622.7	2,444.6	2,608.2
	18,278.5	16,493.1	17,944.3

15. Capital Structure

	30 June 2003 £m	30 June 2002 £m	31 December 2002 £m
Tier 1			
Share capital	123.9	123.9	123.9
Share premium account	6.8	6.8	6.8
Capital redemption reserve	7.3	7.3	7.3
Profit and loss account	1,172.6	1,005.1	1,071.6
Reserve capital instruments	260.8	201.7	242.7
Tier one notes	200.0	-	200.0
Goodwill	(32.5)	-	(34.3)
Total Tier 1 capital	1,738.9	1,344.8	1,618.0
Upper Tier 2			
Perpetual subordinated debt	350.3	350.3	350.3
Reserve capital instruments	39.2	98.3	57.3
General provisions	70.8	36.0	54.2
Total Upper Tier 2 capital	460.3	484.6	461.8
Lower Tier 2			
Term subordinated debt	769.2	469.2	769.2
Total Tier 2 Capital	1,229.5	953.8	1,231.0
Deductions	(213.4)	(130.9)	(170.3)
Total capital	2,755.0	2,167.7	2,678.7
Risk weighted assets	17,836.2	15,582.3	17,248.3
Tier 1 ratio (%)	9.7%	8.6%	9.4%
Total capital (%)	15.4%	13.9%	15.5%

The above capital table has been restated to record the impact of the Group's securitisation programmes in accordance with regulatory capital calculations. Previously, securitisation programmes were included using amounts determined under linked presentation used for the preparation of the Group balance sheet.

16. Reconciliation of Operating Profit to Net Operating Cash Inflows

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Full Year 2002 £m
Operating profit	186.2	152.6	326.2
Increase in prepayments and accrued income	(17.0)	(34.4)	(100.0)
Decrease in accruals and deferred income	(38.7)	(63.1)	(18.4)
Provision for bad and doubtful debts	26.5	20.9	43.1
Loans and advances written off net of recoveries	(18.4)	(9.1)	(25.9)
Depreciation and amortisation	9.5	6.2	14.5
Interest on subordinated liabilities	31.5	23.4	51.3
Interest on reserve capital instruments	8.6	9.1	18.3
Interest on tier one notes	5.7	-	4.3
Other non-cash movements	(1.8)	49.7	23.6
Net cash inflow from trading activities	192.1	155.3	337.0
Net increase in loans and advances to banks and customers	(5,336.2)	(4,571.9)	(8,373.3)
Net increase in deposits by banks and customer accounts	725.0	741.4	602.3
Net increase in debt securities in issue	5,452.1	3,705.0	7,449.6
Net increase in other assets	(15.2)	(13.6)	(68.6)
Net increase in other liabilities	34.2	84.9	159.1
Net cash inflow from operating activities	1,052.0	101.1	106.1

17. Interim Dividends

Ex dividend date	24 September 2003
Record date	26 September 2003
Payment date	31 October 2003

18. 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 2002 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 18 July 2003. The report is also available on the Northern Rock website www.northernrock.co.uk from 8.30am on 17 July 2003.

A presentation of the results will be given by directors on the morning of the results announcement. A web cast of the presentation will be available on the Northern Rock website from 3.00pm on 17 July 2003.

Independent Review Report to Northern Rock plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2003 which comprises the consolidated profit and loss account, consolidated balance sheet, consolidated cashflow statement and reconciliation of movements in shareholders' funds and the related notes. We have read the other information contained in the interim report and considered whether it contains 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 Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which 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 for use in the United Kingdom. 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 United Kingdom 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. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 2003.

PricewaterhouseCoopers LLP
Chartered Accountants

Newcastle upon Tyne
17 July 2003

NORTHERN ROCK GROUP INTERIM RESULTS

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This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to certain of the plans of Northern Rock, its current goals and expectations relating to its future financial condition and performance. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Northern Rock's actual future results may differ materially from the results expressed or implied in these forward-looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, market related risks such as interest rates and exchange rates, delays in implementing proposals, unexpected difficulties with computer systems, unexpected changes to regulation, changes in customer preferences, competition and other factors. Please refer to the most recently filed Annual Report on Form 20-F of Northern Rock filed with the US Securities and Exchange Commission for a discussion of such factors.