

NORTHERN ROCK GROUP INTERIM RESULTS

20 July 2004

Northern Rock plc today issued its interim results for the six months ended 30 June 2004.

HIGHLIGHTS

Operating Performance

- Total assets under management of £57.1 billion - an increase of 9.9% since 31 December 2003
- Record total net lending of £5.1 billion - an increase of 30%
- Record pipeline of total lending of £6.4 billion - up 47% from 30 June 2003
- Record residential net lending of £4.4 billion - an increase of 14.9%
- Record pipeline of residential lending of £5.8 billion - up 47% from 30 June 2003
- Estimated share of UK net mortgage lending of 8.4% - up from 7.8% in the 2003 full year
- Residential 3 months arrears at 0.39% (2003 - 0.45%) - significantly below the industry average
- Enhanced funding - a new issuance of covered bonds of £2.0 billion creating a fourth funding platform

Profits

- Pre tax profits, on a like-for-like basis, up by 14.1% to £200.3 million
- Underlying ratio of costs to assets under management improved to 0.38% (from 0.42%)
- Underlying ratio of costs to income improved to 30.3% (from 30.5%)

Shareholder Value

- Capital -Tier 1 ratio improved to 9.5%
- Earnings per share of 34.4p - an increase of 11.7%
- Interim dividend per share of 8.5p - an increase of 13.3%
- Return on equity of 20.4%

Adam J Applegarth, Chief Executive, said:

“The house purchase market should continue to slow but remortgage activity will remain buoyant. We expect, with that background, to continue to achieve the volumes of lending we require to reach our strategic growth targets. Our size, cost advantage, customer retention stance and our distribution capabilities will enable us to maintain our income growth and enhance shareholder value.

Our published results at the half-year stage are encouraging, even more so when looking at the underlying performance and the fundamental drivers of the business. We are in good shape to continue to deliver strong operational and financial results going forward and remain comfortable with the average of consensus forecasts for 2004, assuming that the current LIBOR / Bank Base Rate differential does not widen further.”

NORTHERN ROCK GROUP INTERIM RESULTS

Overview

During the first half of 2004, in a rising interest rate environment, compression in interest spreads occurred primarily through product mix and as a result of wholesale funding costs rising ahead of increases in Bank Base Rate. Despite this we grew our underlying total income by 9.0% to £340.4 million, further improved our cost efficiency and achieved growth in assets under management of 9.9%. This performance resulted in growth in reported pre-tax profit of 7.7%, or 14.1% on a like-for-like basis, and a return on equity of 20.4%.

Strategic diversification of our funding sources continued in the first half of 2004. Particularly notable was the establishment of a covered bond programme. Our established funding platforms comprising retail, non-retail and securitisation all performed as anticipated providing the finance to support our planned growth in lending volumes.

Lending

During the first half of 2004, total gross lending was £10,055 million, an increase of 28.2% (30 June 2003 - £7,845 million) with net lending of £5,091 million, an increase of 30.0% (30 June 2003 - £3,917 million). The record pipeline of total new business at the end of the first half was £6,373 million some 64% higher than at the end of last year and 47% above the same time last year, providing a solid base for our targets in the second half of the year. The record pipeline of residential lending was £5,802 million, some 69% higher than at the start of the year and 47% higher than at the same time last year.

Following three increases in Bank Base Rate in the first half of 2004, there are early indications of a slow-down in housing transactions and the rate of house price inflation. The market remains in a healthy condition underpinned by relatively low interest rates, low unemployment and a restricted supply of new housing stock. We expect that the number of housing transactions will be around 1.4 million in 2004, at the lower end of the range seen over the long term, and will remain at that level for the next couple of years. Traditionally, as interest rates rise, gross lending has fallen. This relationship no longer applies because of the increased liquidity in the mortgage refinance market, due to the removal of overhanging redemption penalties together with a clear financial incentive for customers to refinance to obtain better deals as interest rates rise. We expect remortgaging activity to remain strong, offsetting substantially the reduction in house purchase lending resulting in only a moderate slowing in the gross lending market. Residential net lending will slow more rapidly due to a reduction in equity withdrawal as house price growth slows, although this will be moderated to some degree by older people releasing equity to sustain lifestyles through products such as our Home Equity Release Mortgage ("HERM").

Against this background we achieved strong gross residential lending of £8,512 million (30 June 2003 - £6,947 million) an increase of 22.5%. Net residential lending was £4,367 million (30 June 2003 - £3,800 million) an increase of 14.9%. Based upon estimated market performance in the first half, our share of gross lending for the first six months of the year was 6.0%, net lending 8.4% and redemptions 4.6% (31 December 2003 - 5.5%, 7.8% and 4.1%), all comparing favourably with our estimated share of stock of mortgages at 30 June 2004 of 5.0%. Of the reported £4,145 million of redemptions, nearly 20% were either partial capital repayments or over payments made by borrowers on flexible loans. This means that core redemptions in the first half were restricted to £3,358 million, lower than in the second half of 2003.

The risk profile of new residential lending continued to be very good in the first half of 2004. The proportion of lending below 90% LTV increased to 78% compared with 71% during 2003. Less than 4% of loans were over £500,000. Lending to first time buyers was 22% resulting in almost 80% of our new borrowers having a proven payment history. We also maintained a good diversified geographic spread of lending. The average indexed LTV of our mortgage book is now 54% (31 December 2003 - 55%), providing strong cover in the event of default.

NORTHERN ROCK GROUP INTERIM RESULTS

Lending (continued)

Our mix of new residential lending in the first half of 2004 reflected customers' preferences initially for discount and tracker mortgages and, as interest rates increased, for fixed rate products, although demand remained strongest for short term fixes.

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 £2,545 million of which £2,164 million were advances secured on residential property representing 28% of new residential lending, excluding further advances. Outstanding balances of "together" mortgages remained a stable proportion of our mortgage portfolio throughout the first half of 2004 and stood at 19.6% at 30 June 2004 (31 December 2003 - 20.1%). Sales of our equity release product "HERM" continued to increase steadily with completions of £160 million resulting in a book of £1,290 million at 30 June 2004.

In the first half of 2003 growth of our unsecured lending portfolio was deliberately constrained due to international events and a possibility of economic downturn. Growth of standalone unsecured lending not linked to a residential mortgage recommenced in the second half of 2003 and has continued in the first half of 2004. This lending is high quality lending driven by risk reward pricing and our application scoring process. Total personal unsecured gross lending was £1,331 million (30 June 2003 - £690 million / 31 December 2003 - £1,694 million) and net lending £661 million (30 June 2003 - £50 million / 31 December 2003 - £569 million). Of these amounts "bundled" unsecured lending accounted for 28.6% (30 June 2003 - 41.8%) of gross and 23.6% (30 June 2003 - 63.4%) of net respectively.

We have continued to grow our commercial mortgage portfolio moderately ensuring that the quality of new lending is not compromised. Gross secured commercial lending amounted to £212 million (30 June 2003 - £208 million) and net lending amounted to £63 million (30 June 2003 - £67 million).

The low risk nature of our lending is demonstrated by the composition of our portfolios. At 30 June 2004 91.7% of our loans under management were secured loans (31 December 2003 - 92.4%) with only 8.3% within our unsecured portfolios (31 December 2003 - 7.6%).

Arrears and Possessions

Residential mortgage arrears have further improved from the year end position despite the growth in mortgage balances under management. 2,141 accounts were three months or more in arrears at 30 June 2004 (31 December 2003 - 2,414) representing only 0.39% of all mortgage accounts (31 December 2003 - 0.45%), significantly less than the UK average at 31 December 2003 of 0.81%. The "together" secured advances payment performance remained consistent with three months or more arrears stable at 0.77% (31 December 2003 - 0.77%). 191 properties, representing only 0.03% of all accounts, were in possession at 30 June 2004 compared with 179 at the end of 2003.

Personal unsecured loan arrears are also significantly better than industry average and reflect our policy of attracting high quality lending via our risk reward pricing. At 30 June 2004 only 0.94% of our standalone personal unsecured loans were three months or more in arrears (31 December 2003 - 0.98%) compared with an industry average of around 3%. Unsecured loans within the "together" brand continued to perform in line with the "together" secured advances and better than traditional personal unsecured loans with only 0.80% three months or more in arrears (31 December 2003 - 0.80%).

Our commercial loan portfolio also continued to perform well with only 0.50% of our commercial loans three months or more in arrears (31 December 2003 - 0.53%).

NORTHERN ROCK GROUP INTERIM RESULTS

Retail Funding

Our retail franchise remains an important part of our funding strategy with total balances at 30 June 2004 amounting to £16.2 billion in approximately 1.5 million accounts. The volume and success of our non-retail funding and securitisation and covered bond issues in the first half of 2004 meant that we did not compete aggressively for new retail deposits, which would have further increased liquidity against a rising interest rate background. As a consequence, there was a small net outflow of funds of £163 million, including accumulated interest of £203 million. In the second half of the year we intend to have only one further tranche of securitisation and so we anticipate that we will achieve a positive net inflow of cash deposits over the full year. We remain committed to maintaining at least 50% of our on-balance sheet advances funded by retail deposits.

Non-Retail Funding

At 30 June 2004 non-retail balances were £15.1 billion, a reduction of £1,916 million following the success of our two securitisation and one covered bond issues in the first half. Northern Rock is a recognised global name with established Euro and US medium term note and commercial paper programmes. In the first half of 2004 we also established a £2 billion French certificate of deposit programme providing additional diversification into French investors. Of our total non-retail funding over half has an original maturity of over 12 months providing a balanced split of short term and medium term funding.

Securitisation

In the first half of 2004 we raised a further £7.12 billion in two securitisation transactions. To date we have completed 12 residential securitisation issues and one commercial mortgage issue raising £26.2 billion with £20.3 billion outstanding at 30 June 2004. We continue to ensure that the average LTV of mortgages securitised reflects those of our recently originated mortgages. Our transactions continue to be noticeably oversubscribed resulting in improvements in pricing being achieved in 2004. Advances subject to securitisation are shown under linked presentation as off-balance sheet loans.

At 30 June 2004 total assets under management subject to securitisation amounted to £21.5 billion, representing 37.7% of total assets under management. Securitised bonds represent 38.4% of our total funding balances, including retail, non-retail and covered bond balances, as at 30 June 2004.

Covered Bond

In April we raised £2.0 billion from an inaugural covered bond issue from our newly established £10 billion programme. The covered bond is secured by a pool of ring-fenced residential mortgages. They remain on-balance sheet as Northern Rock retains substantially all the risks and rewards associated with the loans.

Assets

Assets under management, including assets subject to securitisation, at 30 June 2004 amounted to £57.1 billion, an increase of 9.9% compared with £51.9 billion at 31 December 2003 and a rise of 17.8% from June 2003. The balance sheet (which shows the securitised bonds as a deduction from assets) grew by 6.1% to £36.8 billion compared with £34.7 billion at 30 June 2003.

Total Income and Margins

Total income in the first half of 2004 was £340.4 million. This represents an increase of 9.0% over underlying total income (excluding the surplus on disposal of the credit card portfolio of £7.3 million) of £312.2 million in the first half of 2003, or an increase of 6.5% over reported total income. Our strategy is for unit costs to continue to improve so our total income:assets ratio can reduce and we can still maintain stable returns on mean balance sheet assets. In the event, total income as a proportion of mean total balance sheet assets at 1.84% is little changed from the underlying ratio of 1.86% in the first half of 2003.

NORTHERN ROCK GROUP INTERIM RESULTS

Total Income and Margins (continued)

In line with the rapid growth in securitised assets and the reduction in interest spread, the ratio of total income to mean total assets under management eased to 1.25%, compared with an underlying 1.38% in the first half of 2003.

Group interest margin and spread are calculated by taking into account all interest recorded in the profit and loss account including that relating to securitised assets and liabilities. Similarly, average interest earning assets and liabilities includes those on-balance sheet and those subject to securitisation. In the first half of 2004 wholesale and securitisation funding costs were adversely affected by increases in money market rates with 3 month LIBOR being on average 31 basis points higher than Bank Base Rate, compared with 16 basis points higher in the second half of 2003 and 8 basis points lower in the first half of 2003. This resulted in a 4 basis points decrease in funding spread compared with the full year in 2003. At 30 June 2004 almost 60% of the residential mortgage book is represented by fixed rate lending, mainly short-term fixes. Such lending attracts lower spreads offset by a higher contribution to other income through fees. This, together with the risk reward stance on unsecured lending, the loss of credit card interest income and higher levels of liquidity resulted in a reduction of 9 basis points in asset spread compared with the full year in 2003. Overall, interest spread was 77 basis points, a reduction of 13 basis points compared with the 90 basis points earned in 2003 or a 10 basis points reduction compared with the 87 basis points in the second half of 2003. Net interest margin of 85 basis points represented a reduction of 12 basis points compared with the 97 basis points for the whole of 2003 reflecting the change in spreads and higher interest rates.

Other income has increased by 23.8% to £113.4 million (30 June 2003 - £91.6 million, excluding the surplus on the sale of the credit card portfolio). Commissions of £36.4 million (30 June 2003 - £33.9 million) primarily relate to the sale of third party insurance products and have benefited from the increase in volumes of unsecured lending. Fees (net of service charges) grew by 32.3% to £67.6 million (30 June 2003 - £51.1 million) reflecting both the growth and mix of residential lending and the volume of mortgage retention business.

Expenses

Total operating expenses amounted to £103.3 million representing an increase of only 8.4% over underlying operating expenses of £95.3 million in the first half of 2003. This is significantly less than the growth in assets under management of 17.8% over the last twelve months and resulted in the ratio of costs to assets under management falling to 0.38% from 0.42% in the equivalent period last year. On the same basis the cost to income ratio has improved by 0.2% to 30.3% (30 June 2003 - 30.5%) despite the extra regulatory costs associated with mortgage regulation, Basel II and International Accounting Standards. We remain committed to our strategy of seeking cost efficiency improvements every year.

Social Responsibility - 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 2004 first half profits amounts to £10.0 million (30 June 2003 - £9.3 million). Since flotation in 1997, over £100 million has been made available for charities through The Northern Rock Foundation.

NORTHERN ROCK GROUP INTERIM RESULTS

Provisions

The total charge for provisions for bad and doubtful debts amounted to £24.3 million for the first half (30 June 2003 - £26.5 million) representing 0.17% of mean advances to customers (30 June 2003 - 0.22%). The charge of £0.9 million in respect of secured residential advances (30 June 2003 - £9.1 million) reflects the continued low level of arrears and low indexed LTV of the residential book. The charge of £22.7 million in respect of our unsecured portfolios (30 June 2003 - £16.6 million) maintains the provision cover against outstanding balances broadly in line with that at the end of 2003 at 1.66% (31 December 2003 - 1.70%). The charge on our other secured loans amounted to £0.7 million compared with £0.8 million in the equivalent period last year.

Taxation

The effective tax rate for the first half was 29.0% the same as in the first half of 2003. We anticipate that the ongoing effective tax rate will be in the range of 29% - 30%.

Profits and EPS

The 2003 first half results have been restated to reflect a change in accounting policy following the adoption of UITF 38 resulting in an increase in staff costs and a decrease in profit of £0.3 million (31 December 2003 £0.2 million) - see note 1a.

On a reported basis, profit before tax increased by 7.7% to £200.3 million from the restated 2003 first half amount of £185.9 million. On a like-for-like basis (excluding from the restated 2003 first half results the £7.3 million surplus on the disposal of the credit card portfolio and a £3.6 million contribution prior to its sale, together with the effect on the covenant to The Northern Rock Foundation), profit before tax in the first half of 2004 increased by 14.1%. On the same basis like-for-like profit after tax increased by 14.1% to £142.2 million with reported profit after tax increasing by 7.8%. Return on equity in the first half of 2004 was 20.4% compared with a restated underlying 20.9% in the first half of 2003.

Earnings per share was 34.4p in the first half of 2004, an increase of 11.7% compared with underlying earnings per share of 30.8p and an increase of 7.5% compared with reported earnings per share for the equivalent period in 2003.

Dividends

The proposed interim dividend is 8.5p per share payable on 29 October 2004 to shareholders on the register on 29 September 2004, a 13.3% increase over the 2003 interim dividend of 7.5p.

International Accounting Standards

We are making good progress in our preparations for the introduction of International Accounting Standards with effect from 1 January 2005. It is still not possible to determine the exact effect on our results at this stage due to the nature of the standards themselves, particularly the greater use of fair values, and the uncertainty as to whether the European Union will adopt the current versions of International Financial Reporting Standards for financial instruments (IAS 32 and 39). In addition, the taxation and capital treatment of potential changes will affect both the financial statements and capital management. Both remain to be finalised by the Inland Revenue and the Financial Services Authority respectively.

The new standards, particularly those relating to hedge accounting, are likely to result in increased volatility of reported earnings although the overall underlying cashflows will remain unchanged. We will aim to maintain effective economic hedging policies whilst at the same time minimising volatility to earnings. The hedge accounting results determined under US GAAP and reported in our annual 20-F are unlikely to reflect those anticipated under IAS 39.

NORTHERN ROCK GROUP INTERIM RESULTS

Capital

At 30 June 2004 total capital amounted to £3,221 million resulting in a total capital ratio of 16.0%. Tier 1 capital was £1,909 million and the Tier 1 ratio 9.5%, comfortably above our internal minimum target of 8.0%. The comparable ratios at 31 December 2003 were 14.3% and 9.0% respectively.

In the first half of 2004 we raised \$700 million (£396 million equivalent) of Upper Tier 2 capital via our US medium term note programme delivering an excellent diversification of capital from the US domestic market.

We continue with our preparations for the introduction of the new capital accord under Basel II. We are pleased that the Retail Internal Ratings Based (“IRB”) approach that we intend to adopt is to be implemented with effect from 1 January 2007 rather than a year later which is the timetable for the Advanced IRB. This timetable could, however, be affected if the passing of the required EU legislation does not meet its own tight timetable. We anticipate potential capital savings in response to our low risk balance sheet subject to stances to be taken by the Financial Services Authority and rating agencies. We will continue to manage actively our capital base to minimise our cost of capital and to maximise capital flexibility.

Outlook

The effect of rising interest rates will result in a slowing of house price inflation and lower levels of housing transactions. Growth in the levels of remortgage activity will substantially offset this effect. As Bank Base Rate continues to rise and move towards its peak the LIBOR / Bank Base Rate gap can be expected to recover.

Our strong pipeline at the start of the second half means that the growth in Northern Rock’s assets under management in 2004 should be within the top half of our strategic target of 20% +/- 5%. Such volume growth will support our continued growth in total income and returns to shareholders. Looking beyond 2004, our strategic targets of asset under management growth of 20% +/- 5%, profit growth of 15% +/- 5% and return on equity in the range of 19% to 22% remain in place.

We will continue to develop each of our funding sources with the objective of diversifying the type, geographic location and duration of all types of funding. Our investments in premises, people and systems give us the capacity for future growth and enable us to meet increasing regulatory requirements.

The range of pre-tax profit expectations for 2004, as provided by 21 of the major bank analysts, is £395 million to £444 million, with a mean of £429 million, like-for-like growth of 12.4%. Northern Rock is comfortable with this consensus mean, assuming that the LIBOR / Bank Base Rate gap does not widen further.

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

NORTHERN ROCK GROUP INTERIM RESULTS

FINANCIAL HIGHLIGHTS

| Key Performance Figures | Six months to 30 June | | Full Year | | | |
|---|--------------------------|-------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> | | | |
| | <u>£m</u> | <u>(Restated)¹</u> | <u>(Restated)¹</u> | | | |
| Gross lending | 10,055 | 7,845 | 17,315 | | | |
| Net lending | 5,091 | 3,917 | 8,514 | | | |
| Net retail funding | (163) | 320 | 1,007 | | | |
| Securitisation issues | 7,122 | 5,504 | 7,730 | | | |
| Covered bond issue | 1,341 | - | - | | | |
| Net non-retail funding | (1,916) | 1,654 | 3,317 | | | |
| Key Ratios – Balance Sheet | % | % | % | | | |
| Growth in assets under management ^{4,5} | 9.9 | 15.7 | 24.0 | | | |
| Balance sheet growth ⁴ | (0.8) | 6.3 | 13.8 | | | |
| Growth in risk weighted assets | 2.3 | 3.4 | 14.2 | | | |
| Total capital ratio | 16.0 | 15.4 | 14.3 | | | |
| Tier 1 ratio | 9.5 | 9.5 | 9.0 | | | |
| Key Ratios – Profit and Loss | <u>Underlying</u> | <u>Reported</u> | <u>Underlying²</u> | <u>Reported</u> | <u>Underlying²</u> | <u>Reported</u> |
| | % | % | <u>(Restated)¹</u> | <u>(Restated)¹</u> | <u>(Restated)¹</u> | <u>(Restated)¹</u> |
| | % | % | % | % | % | % |
| Total income : mean balance sheet assets | 1.84 | 1.84 | 1.86 | 1.90 | 1.87 | 1.89 |
| Total income : mean assets under management | 1.25 | 1.25 | 1.38 | 1.41 | 1.39 | 1.41 |
| Interest margin | 0.85 | 0.85 | 1.00 | 1.00 | 0.97 | 0.97 |
| Interest spread | 0.77 | 0.77 | 0.92 | 0.92 | 0.90 | 0.90 |
| Cost to income ratio | 30.3 | 30.3 | 30.5 | 29.8 | 29.8 | 30.3 |
| Cost to asset ratio | 0.56 | 0.56 | 0.57 | 0.57 | 0.56 | 0.57 |
| Cost to assets under management ratio | 0.38 | 0.38 | 0.42 | 0.42 | 0.41 | 0.43 |
| Provision charge as % of mean advances to customers | 0.17 | 0.17 | 0.22 | 0.22 | 0.19 | 0.19 |
| Pre tax profit growth | 12.0 | 7.7 | 17.9 | 22.5 | 18.3 | 18.8 |
| Pre tax profit growth (adjusted) ³ | 14.1 | 9.8 | n/a | n/a | n/a | n/a |
| Effective tax rate | 29.0 | 29.0 | 29.0 | 29.0 | 29.0 | 29.0 |
| Post tax profit growth | 12.0 | 7.8 | 20.0 | 24.7 | 19.4 | 19.9 |
| Post tax profit growth (adjusted) ³ | 14.1 | 9.8 | n/a | n/a | n/a | n/a |
| Post tax return on mean equity | 20.4 | 20.4 | 20.9 | 21.7 | 21.8 | 21.9 |
| Post tax return on mean assets | 0.77 | 0.77 | 0.75 | 0.78 | 0.78 | 0.79 |
| Post tax return on mean assets under management | 0.52 | 0.52 | 0.56 | 0.58 | 0.58 | 0.58 |
| Shareholder Information | <u>p/share</u> | <u>p/share</u> | <u>p/share</u> | <u>p/share</u> | <u>p/share</u> | <u>p/share</u> |
| Earnings per share | 34.4 | 34.4 | 30.8 | 32.0 | 66.3 | 66.6 |
| Fully diluted earnings per share | 34.2 | 34.2 | 30.6 | 31.7 | 65.7 | 66.0 |
| Dividend per share | 8.5 | 8.5 | 7.5 | 7.5 | 23.3 | 23.3 |

NORTHERN ROCK GROUP INTERIM RESULTS

FINANCIAL HIGHLIGHTS (Continued)

Notes

- 1 2003 ratios have been restated, where necessary, following the introduction of UITF Abstract 38 – Accounting for ESOP Trusts (see note 1a).
- 2 Underlying ratios in 2003 exclude the effects of the first half £7.3 million surplus on disposal of the credit card portfolio and the second half £5.6 million non-recurring costs associated with the closure of certain branches, together with the effect on the covenant to The Northern Rock Foundation. A reconciliation of reported and underlying profits for 2003 is set out in note 9.
- 3 Profit growth (adjusted) for the six months to 30 June 2004 represents the growth over underlying and reported profit for the six months to 30 June 2003 (note 9) excluding the £3.6 million contribution to profit from the credit card portfolio prior to its disposal on 30 May 2003 (see note 10), adjusted for the effect of the covenant to The Northern Rock Foundation.
- 4 Asset growth in 2004 represents the growth of assets under management and balance sheet assets between 31 December 2003 and 30 June 2004.
- 5 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

| | <u>Note</u> | Six months to 30 June | | Full Year |
|---|-------------|--|---|---|
| | | <u>2004</u> <u>(Unaudited)</u> <u>£m</u> | <u>2003</u> <u>(Unaudited)</u> <u>(Restated)</u> <u>£m</u> | <u>2003</u> <u>(Audited)</u> <u>(Restated)</u> <u>£m</u> |
| Interest receivable | | | | |
| interest receivable and similar income arising from debt securities | | 89.6 | 78.6 | 159.1 |
| other interest receivable and similar income | | 752.2 | 628.8 | 1,279.9 |
| securitisation interest receivable | | 453.2 | 329.1 | 696.0 |
| securitisation interest payable | | (395.9) | (250.5) | (538.3) |
| | | 899.1 | 786.0 | 1,596.7 |
| Interest payable | | (685.0) | (572.6) | (1,164.8) |
| Income from equity shares and variable yield securities | | 12.9 | 7.2 | 18.8 |
| Net interest income | 3 | 227.0 | 220.6 | 450.7 |
| Fees and commissions receivable | | 128.9 | 103.4 | 216.9 |
| Fees and commissions payable | | (24.9) | (18.4) | (43.1) |
| Other operating income | | 9.4 | 6.6 | 27.9 |
| Surplus on sale of credit card portfolio | | - | 7.3 | 7.3 |
| Total non-interest income | 5 | 113.4 | 98.9 | 209.0 |
| Total income | 2 | 340.4 | 319.5 | 659.7 |
| Administrative expenses | | | | |
| operating | | (94.7) | (87.6) | (178.0) |
| non-recurring | | - | - | (5.6) |
| covenant to The Northern Rock Foundation | | (10.0) | (9.3) | (19.3) |
| Total administrative expenses | | (104.7) | (96.9) | (202.9) |
| Depreciation and amortisation | | | | |
| tangible fixed assets | | (8.6) | (7.7) | (16.5) |
| goodwill | | (1.8) | (1.8) | (3.6) |
| Total depreciation and amortisation | | (10.4) | (9.5) | (20.1) |
| Operating expenses | 6 | (115.1) | (106.4) | (223.0) |
| Provisions for bad and doubtful debts | 7 | (24.3) | (26.5) | (48.7) |
| Amounts written off fixed asset investments | | (0.7) | (0.7) | (1.4) |
| Profit on ordinary activities before tax | | 200.3 | 185.9 | 386.6 |
| Tax on profit on ordinary activities | | (58.1) | (54.0) | (112.2) |
| Profit on ordinary activities after tax | | 142.2 | 131.9 | 274.4 |
| Dividends | | (35.3) | (31.2) | (96.3) |
| Profit retained for the period | | 106.9 | 100.7 | 178.1 |
| Earnings per share | 11 | 34.4p | 32.0p | 66.6p |
| Underlying earnings per share | 11 | 34.4p | 30.8p | 66.3p |
| Fully diluted earnings per share | 11 | 34.2p | 31.7p | 66.0p |
| Underlying fully diluted earnings per share | 11 | 34.2p | 30.6p | 65.7p |

NORTHERN ROCK GROUP INTERIM RESULTS

CONSOLIDATED BALANCE SHEET

| | <u>Note</u> | 30 June 2004 (Unaudited) £m | 30 June 2003 (Unaudited) (Restated) £m | 31 December 2003 (Audited) (Restated) £m |
|---|-------------|--|---|---|
| Assets | | | | |
| Cash and balances at central banks | | 7.7 | 7.0 | 11.6 |
| Loans and advances to banks | | 3,339.6 | 4,360.0 | 3,450.2 |
| Loans and advances to customers not subject to securitisation | | 26,475.6 | 23,535.7 | 27,355.8 |
| Loans and advances to customers subject to securitisation | | 21,535.2 | 14,706.7 | 15,678.7 |
| Less: non-recourse finance | 14 | (20,267.5) | (13,765.0) | (14,832.4) |
| | 13 | 27,743.3 | 24,477.4 | 28,202.1 |
| Debt securities | | 4,320.7 | 4,511.3 | 4,185.5 |
| Equity shares and other variable yield securities | | 500.7 | 421.6 | 410.8 |
| Intangible fixed assets | | 28.9 | 32.5 | 30.7 |
| Tangible fixed assets | | 198.0 | 160.2 | 179.1 |
| Other assets | | 63.5 | 99.1 | 76.6 |
| Prepayments and accrued income | | 614.9 | 619.7 | 564.8 |
| Total assets | | 36,817.3 | 34,688.8 | 37,111.4 |
| Liabilities | | | | |
| Deposits by banks | | 1,586.5 | 1,653.7 | 1,461.5 |
| Customer accounts | 16 | 18,718.4 | 18,278.5 | 18,797.3 |
| Debt securities in issue | | 12,276.2 | 11,036.8 | 13,060.1 |
| Other liabilities | | 321.1 | 401.1 | 338.8 |
| Accruals and deferred income | | 422.2 | 415.8 | 475.3 |
| Provisions for liabilities and charges | | 25.3 | 12.6 | 19.0 |
| Subordinated liabilities | | 1,515.7 | 1,119.5 | 1,119.5 |
| Reserve capital instruments | | 300.0 | 300.0 | 300.0 |
| Tier one notes | | 200.0 | 200.0 | 200.0 |
| Total subordinated liabilities | | 2,015.7 | 1,619.5 | 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 | 17 | 1,313.9 | 1,132.8 | 1,201.9 |
| Shareholders' funds – equity | | 1,451.9 | 1,270.8 | 1,339.9 |
| Total liabilities | | 36,817.3 | 34,688.8 | 37,111.4 |
| Non-recourse finance | | 20,267.5 | 13,765.0 | 14,832.4 |
| Assets under management | | 57,084.8 | 48,453.8 | 51,943.8 |

NORTHERN ROCK GROUP INTERIM RESULTS

CONSOLIDATED CASHFLOW STATEMENT

| | Six months to 30 June | | Full year |
|---|-----------------------|--------------------|------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Audited)</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Net cash (outflow)/inflow from operating activities (note 20) | (435.5) | 1,052.0 | 845.8 |
| Returns on investments and servicing of finance | (39.7) | (34.7) | (86.9) |
| Taxation | (47.9) | (45.5) | (96.0) |
| Capital expenditure and financial investment | (319.8) | (620.1) | (419.5) |
| Acquisitions and disposals | - | 217.0 | 217.0 |
| Equity dividends paid | (65.4) | (56.7) | (87.6) |
| Net cash (outflow)/inflow before financing | (908.3) | 512.0 | 372.8 |
| Financing | 396.1 | - | - |
| (Decrease)/increase in cash | <u>(512.2)</u> | <u>512.0</u> | <u>372.8</u> |

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 30 June | 30 June | 31 December |
|--|--------------------|--------------------|-------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Audited)</u> |
| | <u>£m</u> | <u>(Restated)</u> | <u>(Restated)</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Profit retained | 106.9 | 100.7 | 178.1 |
| Opening shareholders' funds – as previously reported | 1,339.9 | 1,209.6 | 1,209.6 |
| Prior year adjustment – UITF 38 (note 1a) | | | |
| Reduction in shareholders' funds prior to 1 January 2003 | - | (44.5) | (44.5) |
| Movement in relation to own shares | - | 5.0 | (3.3) |
| | - | (39.5) | (47.8) |
| Movement in relation to own shares | 5.1 | - | - |
| Closing shareholders' funds | <u>1,451.9</u> | <u>1,270.8</u> | <u>1,339.9</u> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 30 June | 30 June | 31 December |
|---|--------------------|--------------------|-------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Audited)</u> |
| | <u>£m</u> | <u>(Restated)</u> | <u>(Restated)</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Profit retained | 106.9 | 100.7 | 178.1 |
| Total recognised gains and losses for the period | 106.9 | 100.7 | 178.1 |
| Prior year adjustment – UITF 38 (note 1a) | 0.3 | - | - |
| Total recognised gains and losses recognised since the last annual accounts | <u>107.2</u> | <u>100.7</u> | <u>178.1</u> |

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS

1a) Change in Accounting Policy

The Group has implemented the requirements of Urgent Issues Task Force ("UITF") Abstract 38 - "Accounting for ESOP Trusts" with effect from 1 January 2004. As a result, holdings of Ordinary shares in Northern Rock plc owned by the Group's employee share ownership trusts are now shown as a deduction from shareholders' funds. Previously they were shown as part of other assets in the balance sheet. Purchases and sales of Northern Rock plc Ordinary shares are now accounted for as movements in shareholders' funds and no gains and losses are reflected in the Profit and Loss account. The charge to the Profit and Loss account in respect of shares and share options granted to employees that are expected to be met from shares held by employee share trusts is now based on the difference between the value on the date of grant and the exercise price. Previously, where shares were purchased to meet these obligations, the charge was based on the carrying value of the shares.

The effect of this change in accounting policy, which has been accounted for as a prior year adjustment, is to increase staff costs and decrease profit for the 6 months ended 30 June 2004 by £0.2 million (6 months to 30 June 2003 - £0.3 million; year to 31 December 2003 - £0.2 million). The effect on other assets, other liabilities, staff costs and shareholders' funds at the balance sheet dates is as follows:

| | 30 June 2004 (Unaudited) £m | 30 June 2003 (Unaudited) £m | 31 December 2003 (Audited) £m |
|--|--|--|--|
| Reduction in shareholders' funds – beginning of period (note 17) | (48.0) | (44.5) | (44.5) |
| Movement in relation to own shares (note 18) | 5.1 | 5.0 | (3.3) |
| Increase in staff costs during period | (0.2) | (0.3) | (0.2) |
| Reduction in shareholders' funds – end of period | <u>(43.1)</u> | <u>(39.8)</u> | <u>(48.0)</u> |
| The reduction in shareholders' funds comprises: | | | |
| Reduction in other assets | (43.1) | (40.5) | (48.8) |
| Reduction in other liabilities | - | 0.7 | 0.8 |
| | <u>(43.1)</u> | <u>(39.8)</u> | <u>(48.0)</u> |

The cumulative difference in the amount credited through the profit and loss account in the period up to 31 December 2003 amounted to £0.3 million.

1b) Securitisation – Changes in Presentation

a) Interest payable on securitised bonds is deducted from interest receivable on securitised assets on the face of the Profit and Loss account using linked presentation. In the first half of 2003 the linked presentation was included within other income but with effect from the 2003 year end has changed to be included within interest receivable. The change has no impact on total income or profit and results in a more appropriate disclosure of net interest income which is used in the calculation of interest margin and spread of the Group.

b) Northern Rock retains an interest ("seller's share") in assets subject to securitisation via a master trust. At the 2003 half year, and previously, the retained interest was included in loans and advances not subject to securitisation. At the 31 December 2003 year end this treatment was revised (with effect from the 2003 year end) so as to include such assets within loans and advances subject to securitisation (see note 14). The 30 June 2003 balance sheet has been amended to reflect this revised presentation. This change has no impact on total assets or total assets under management. The interest income received by Northern Rock in respect of the retained interest is included within the Profit and Loss account heading "other interest receivable and similar income".

NORTHERN ROCK GROUP INTERIM RESULTS

2. Total Income

| | Six months to 30 June | | Full Year |
|--|-----------------------|--------------------------------|--------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>(Restated)</u> <u>£m</u> | <u>£m</u> |
| Net interest income | 227.0 | 220.6 | 450.7 |
| Other income | 113.4 | 98.9 | 209.0 |
| Total income | <u>340.4</u> | <u>319.5</u> | <u>659.7</u> |
| Mean total assets | 36,964.4 | 33,654.4 | 34,865.7 |
| Mean assets under management | 54,514.3 | 45,164.2 | 46,909.2 |
| Total income : mean total assets | 1.84% | 1.90% | 1.89% |
| Total income : mean total assets (underlying) | 1.84% | 1.86% | 1.87% |
| Total income : mean assets under management | 1.25% | 1.41% | 1.41% |
| Total income : mean assets under management (underlying) | 1.25% | 1.38% | 1.39% |

The above underlying ratios for 2003 first half and 2003 full year exclude the £7.3 million profit on sale of the credit card portfolio (see note 10).

3. Interest Spread and Margin

| | Six months to 30 June | | Full Year |
|------------------------------|-----------------------|--------------|--------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Interest receivable | 1,307.9 | 1,043.7 | 2,153.8 |
| Interest payable | (1,080.9) | (823.1) | (1,703.1) |
| Net interest income | <u>227.0</u> | <u>220.6</u> | <u>450.7</u> |
| Average balances | | | |
| Interest bearing assets | 53,238.4 | 44,271.2 | 46,435.1 |
| Interest bearing liabilities | 52,147.2 | 43,376.6 | 45,570.6 |
| Interest margin | 0.85% | 1.00% | 0.97% |
| Interest spread | 0.77% | 0.92% | 0.90% |

Interest receivable and payable represent amounts reported in the Profit and Loss account, adjusted to transfer securitisation interest payable to interest payable, and include income from equity shares and other variable yield securities in interest receivable. Interest bearing assets and liabilities have been adjusted for securitised assets and non-recourse finance and interest bearing assets include equity shares and other variable yield securities.

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.

NORTHERN ROCK GROUP INTERIM RESULTS

4. 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>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Balance Sheet: | | | |
| Opening balance | 236.9 | 257.5 | 257.5 |
| Additions | 165.5 | 145.2 | 327.1 |
| Amortisation | (182.8) | (148.1) | (347.7) |
| Closing balance | <u>219.6</u> | <u>254.6</u> | <u>236.9</u> |
| Profit and Loss account: | | | |
| Amortisation | 177.6 | 145.5 | 340.7 |
| Current year immediate write off | 5.2 | 2.6 | 7.0 |
| | <u>182.8</u> | <u>148.1</u> | <u>347.7</u> |

5. Other Income

| | Six months to 30 June | | Full Year |
|--|-----------------------|--------------------------------|--------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>(Restated)</u> <u>£m</u> | <u>£m</u> |
| Commissions | 36.4 | 33.9 | 67.8 |
| Fees (net of service charges) | 67.6 | 51.1 | 106.0 |
| Subsidiaries and others | 9.4 | 6.6 | 27.9 |
| | <u>113.4</u> | <u>91.6</u> | <u>201.7</u> |
| Surplus on sale of credit card portfolio | - | 7.3 | 7.3 |
| | <u>113.4</u> | <u>98.9</u> | <u>209.0</u> |

6. Operating Expenses

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

| | Six months to 30 June | | Full Year |
|--------------------------|-----------------------|--------------------------------|--------------------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>(Restated)</u> <u>£m</u> | <u>(Restated)</u> <u>£m</u> |
| Staff costs | 55.3 | 49.5 | 101.0 |
| Other expenses | 39.4 | 38.1 | 77.0 |
| Depreciation | 8.6 | 7.7 | 16.5 |
| Total recurring expenses | <u>103.3</u> | <u>95.3</u> | <u>194.5</u> |
| Non-recurring costs | - | - | 5.6 |
| Total operating expenses | <u>103.3</u> | <u>95.3</u> | <u>200.1</u> |

Non-recurring costs in 2003 represent costs incurred in relation to the closure of certain branches.

NORTHERN ROCK GROUP INTERIM RESULTS

6. Operating Expenses (continued)

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

| | Six months to 30 June | | Full Year |
|-----------|------------------------------|--------------------|--------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| Full time | 3,674 | 3,385 | 3,448 |
| Part time | 1,000 | 940 | 952 |

7. Provision for Losses on Loans and Advances

| | Six months to 30 June | | Full Year |
|---------------------------------------|------------------------------|-----------------------|---------------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Provisions charge: | | | |
| Specific | | | |
| Secured on residential property | 0.8 | 1.3 | 4.1 |
| Other secured | 0.2 | 0.1 | 1.4 |
| Unsecured | 17.4 | 15.5 | 23.4 |
| | <u>18.4</u> | <u>16.9</u> | <u>28.9</u> |
| General | | | |
| Secured on residential property | 0.1 | 7.8 | 9.5 |
| Other secured | 0.5 | 0.7 | 0.3 |
| Unsecured | 5.3 | 1.1 | 10.0 |
| | <u>5.9</u> | <u>9.6</u> | <u>19.8</u> |
| Total provision charge | <u>24.3</u> | <u>26.5</u> | <u>48.7</u> |
| | | | |
| % of mean advances to customers | 0.17% | 0.22% | 0.19% |
| | | | |
| | <u>30 June</u> | <u>30 June</u> | <u>31 December</u> |
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Provisions balance: | | | |
| Specific | | | |
| Secured on residential property | 2.5 | 2.5 | 3.1 |
| Other secured | 2.1 | 1.4 | 1.9 |
| Unsecured | 32.2 | 22.1 | 27.4 |
| Total | <u>36.8</u> | <u>26.0</u> | <u>32.4</u> |
| General | | | |
| Secured on residential property | 31.6 | 29.4 | 31.7 |
| Other secured | 9.2 | 9.1 | 8.7 |
| Unsecured | 34.0 | 26.5 | 28.5 |
| Total | <u>74.8</u> | <u>65.0</u> | <u>68.9</u> |
| Total provision balance | <u>111.6</u> | <u>91.0</u> | <u>101.3</u> |
| | | | |
| % of period end advances to customers | 0.40% | 0.38% | 0.36% |

NORTHERN ROCK GROUP INTERIM RESULTS

8. Residential Mortgage Arrears

| | 30 June <u>2004</u> | | 30 June <u>2003</u> | | 31 December <u>2003</u> | |
|--------------------|--------------------------------|-------------|--------------------------------|-------------|------------------------------------|-------------|
| | Cases | % | Cases | % | Cases | % |
| 3 – 6 months | 1,591 | 0.29 | 2,020 | 0.39 | 1,674 | 0.31 |
| Over 6 – 12 months | 501 | 0.09 | 712 | 0.14 | 634 | 0.12 |
| Over 12 months | 49 | 0.01 | 115 | 0.02 | 106 | 0.02 |
| Total | <u>2,141</u> | <u>0.39</u> | <u>2,847</u> | <u>0.55</u> | <u>2,414</u> | <u>0.45</u> |

9. 2003 Underlying Results

A reconciliation of reported and underlying profit before and after tax is set out in the following table:

| | Six months to 30 June <u>2003</u> (Restated) £m | Full Year <u>2003</u> (Restated) £m |
|--|--|--|
| Reported profit before tax (page 10) | 185.9 | 386.6 |
| Surplus on disposal of credit card portfolio (note 10) | (7.3) | (7.3) |
| Non-recurring costs (note 6) | - | 5.6 |
| Covenant to The Northern Rock Foundation | 0.3 | 0.1 |
| Underlying profit before tax | <u>178.9</u> | <u>385.0</u> |
| Reported profit after tax (page 10) | 131.9 | 274.4 |
| Surplus on disposal of credit card portfolio (note 10) | (7.3) | (7.3) |
| Non-recurring costs (note 6) | - | 5.6 |
| Covenant to The Northern Rock Foundation | 0.3 | 0.1 |
| Tax effect | 2.1 | 0.5 |
| Underlying profit after tax | <u>127.0</u> | <u>273.3</u> |

10. 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. Included in the reported results for the 6 months ended 30 June 2003 is profit before tax of £3.6 million and profit after tax of £2.6 million in relation to the credit card portfolio to the date of sale. This profit is excluded from like-for-like profit as follows:

| | Six months to 30 June <u>2003</u> £m | Full Year <u>2003</u> £m |
|--|---|---|
| Underlying profit before tax (note 9) | 178.9 | 385.0 |
| Credit card contribution | (3.6) | (3.6) |
| Covenant to The Northern Rock Foundation | 0.2 | 0.2 |
| Like-for-like profit before tax | <u>175.5</u> | <u>381.6</u> |
| Underlying profit after tax (note 9) | 127.0 | 273.3 |
| Credit card contribution | (3.6) | (3.6) |
| Covenant to The Northern Rock Foundation | 0.2 | 0.2 |
| Tax effect | 1.0 | 1.0 |
| Like-for-like profit after tax | <u>124.6</u> | <u>270.9</u> |

NORTHERN ROCK GROUP INTERIM RESULTS

11. 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 |
|--|------------------------------|--------------------------|--------------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | | <u>(Restated)</u> | <u>(Restated)</u> |
| Weighted average number of shares in issue | 412.8m | 412.2m | 412.3m |
| Basic EPS | 34.4p | 32.0p | 66.6p |
| Underlying EPS | 34.4p | 30.8p | 66.3p |

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 | 415.8m | 415.7m | 415.9m |
| Fully diluted EPS | 34.2p | 31.7p | 66.0p |
| Underlying fully diluted EPS | 34.2p | 30.6p | 65.7p |

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 3.0 million (30 June 2003: 3.5 million, 31 December 2003: 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.

12. 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>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>%</u> | <u>%</u> | <u>%</u> |
| Type of lending | | | |
| Fixed rate (long term – over 2 years) | 5 | 12 | 10 |
| Fixed rate (short term – up to and including 2 years) | 38 | 50 | 46 |
| Discount | 26 | 12 | 14 |
| Cashback | 1 | 1 | 1 |
| Together | 28 | 22 | 25 |
| HERM | 2 | 3 | 4 |
| Type of customer | | | |
| First time buyer | 22 | 22 | 23 |
| Next time buyer | 41 | 35 | 37 |
| Remortgage | 37 | 43 | 40 |
| Geographic spread | | | |
| North | 15 | 15 | 15 |
| Scotland | 10 | 9 | 9 |
| Midlands | 24 | 24 | 24 |
| South | 51 | 52 | 52 |

NORTHERN ROCK GROUP INTERIM RESULTS

13. Loans and Advances to Customers

| | 30 June 2004 | 30 June 2003 (Restated) | 31 December 2003 |
|--|-------------------------|--|-----------------------------|
| | £m | £m | £m |
| Advances secured on residential property not subject to securitisation | 21,463.0 | 19,941.8 | 23,179.7 |
| Advances secured on residential property subject to securitisation | 21,128.5 | 14,192.5 | 15,229.4 |
| Total advances secured on residential property | 42,591.5 | 34,134.3 | 38,409.1 |
| Other secured advances not subject to securitisation | 1,082.1 | 863.0 | 939.5 |
| Other secured advances subject to securitisation | 406.7 | 514.2 | 449.3 |
| Total other secured advances | 1,488.8 | 1,377.2 | 1,388.8 |
| Unsecured loans | 3,930.5 | 2,730.9 | 3,236.6 |
| | 48,010.8 | 38,242.4 | 43,034.5 |
| Less: non-recourse finance | (20,267.5) | (13,765.0) | (14,832.4) |
| | 27,743.3 | 24,477.4 | 28,202.1 |

NORTHERN ROCK GROUP INTERIM RESULTS

14. 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. The balances of assets subject to securitisation and non-recourse finance at 30 June 2004 are as follows:

| Securitisation company | Date of securitisation | Gross assets securitised £m | Non-recourse finance £m | Subordinated loans owed to the Group £m |
|--|---------------------------|-----------------------------------|-------------------------------|--|
| Residential: | | | | |
| Granite Mortgages 99-1 plc | 1 October 1999 | 121.2 | 114.0 | - |
| Granite Mortgages 00-1 plc | 1 March 2000 | 308.2 | 298.8 | - |
| Granite Mortgages 00-2 plc | 25 September 2000 | 592.5 | 572.3 | 6.6 |
| Granite Mortgages 01-1 plc | 26 March 2001 | 905.3 | 919.9 | 5.2 |
| Granite Mortgages 01-2 plc | 28 September 2001 | 998.3 | 1,013.0 | 9.7 |
| Granite Mortgages 02-1 plc | 20 March 2002 | 1,745.2 | 1,771.6 | 27.2 |
| Granite Mortgages 02-2 plc | 23 September 2002 | 2,125.5 | 2,162.4 | 25.3 |
| Granite Mortgages 03-1 plc | 27 January 2003 | 2,311.6 | 2,382.4 | 28.6 |
| Granite Mortgages 03-2 plc | 21 May 2003 | 2,056.1 | 2,082.2 | 23.8 |
| Granite Mortgages 03-3 plc | 24 September 2003 | 1,961.9 | 1,974.4 | 17.0 |
| Granite Mortgages 04-1 plc | 28 January 2004 | 3,132.1 | 3,147.2 | 47.8 |
| Granite Mortgages 04-2 plc | 26 May 2004 | 3,665.2 | 3,660.4 | 61.9 |
| | | 19,923.1 | 20,098.6 | 253.1 |
| Retained interest in Granite Trustees Limited | | 1,205.4 | - | - |
| Total residential | | 21,128.5 | 20,098.6 | 253.1 |
| Commercial: | | | | |
| Dolerite Funding No 1 plc | 24 June 2002 | 343.2 | 318.7 | 19.1 |
| Retained interest in Dolerite Trustees Limited | | 63.5 | - | - |
| Total commercial | | 406.7 | 318.7 | 19.1 |
| Maximum extent of insurance cover provided by subsidiary | | | (149.8) | |
| Total | | 21,535.2 | 20,267.5 | 272.2 |

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 retained £20 million from the proceeds of debt issuance to fund this reserve, which is only repayable after full repayment of the notes.

Interest income earned by Northern Rock in respect of the retained interest in Granite Trustees Limited and Dolerite Trustees Limited is recorded in the Profit and Loss account within other interest receivable and similar income.

NORTHERN ROCK GROUP INTERIM RESULTS

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

Northern Rock plc does not own directly, or indirectly, any of the share capital of any of the above securitisation companies. A summary Profit and Loss account for the above securitisation companies is set out below:

| | Six months to 30 June | | Full Year |
|--|------------------------------|--------------------|--------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Interest receivable | 453.2 | 329.1 | 696.0 |
| Interest payable | (395.9) | (250.5) | (538.3) |
| Fixed rate swaps payable to Northern Rock | (20.4) | (26.6) | (65.4) |
| Other swaps and net interest payable to Northern Rock | (2.3) | (18.3) | (34.7) |
| Net interest receivable | 34.6 | 33.7 | 57.6 |
| Other income | 5.9 | 4.0 | 8.8 |
| Administrative and other expenses payable to third parties | (2.6) | (3.4) | 0.2 |
| Administrative and other expenses payable to Northern Rock | (37.9) | (34.3) | (66.6) |
| Result for the financial period | - | - | - |

15. Covered Bond

Included within loans and advances to customers not subject to securitisation are £2,090 million of mortgage advances assigned to a bankruptcy remote special purpose vehicle. These loans provide security to an issue of covered bonds of £1,341 million made by Northern Rock on 4 May 2004, which are included within debt securities in issue. Northern Rock retains substantially all the risks and rewards associated with these loans and therefore this transaction does not qualify for linked presentation or sale treatment.

16. Analysis of Customer Accounts

| | 30 June | 30 June | 31 December |
|----------------------------------|------------------------|------------------------|------------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Branch accounts | 2,404.3 | 2,384.4 | 2,437.2 |
| Postal accounts | 6,830.0 | 5,303.5 | 6,230.8 |
| Internet accounts | 2,693.0 | 2,661.2 | 2,891.4 |
| Offshore accounts | 2,321.4 | 2,479.5 | 2,405.9 |
| Telephone accounts | 1,087.3 | 1,651.3 | 1,339.8 |
| Legal & General branded accounts | 844.3 | 1,175.9 | 1,037.7 |
| Total retail balances | 16,180.3 | 15,655.8 | 16,342.8 |
| Other customer accounts | 2,538.1 | 2,622.7 | 2,454.5 |
| | <u>18,718.4</u> | <u>18,278.5</u> | <u>18,797.3</u> |

NORTHERN ROCK GROUP INTERIM RESULTS

17. Profit and Loss Account

| | 30 June 2004 £m | 30 June 2003 £m | 31 December 2003 £m |
|---|--------------------------------|--------------------------------|------------------------------------|
| At 1 January as previously reported | 1,249.9 | 1,071.6 | 1,071.6 |
| Prior year adjustment (note 1a) | (48.0) | (44.5) | (44.5) |
| At 1 January restated | 1,201.9 | 1,027.1 | 1,027.1 |
| Movements in relation to own shares (note 18) | 5.1 | 5.0 | (3.3) |
| Profit for the financial period | 106.9 | 100.7 | 178.1 |
| | <u>1,313.9</u> | <u>1,132.8</u> | <u>1,201.9</u> |

18. Own Shares

The amounts deducted from the profit and loss reserve in respect of own shares, which are held at cost, are as follows:

| | 30 June 2004 £m | 30 June 2003 £m | 31 December 2003 £m |
|--|--------------------------------|--------------------------------|------------------------------------|
| Own shares in relation to employee share schemes | <u>52.6</u> | <u>47.5</u> | <u>58.2</u> |

Movements in the amount deducted from reserves in respect of own shares have been as follows:

| | 30 June 2004 £m | 30 June 2003 £m | 31 December 2003 £m |
|--|--------------------------------|--------------------------------|------------------------------------|
| At 1 January | 58.2 | 53.9 | 53.9 |
| Purchases of shares | 2.1 | 3.9 | 15.5 |
| Use of shares on exercise of employee options and for other employee share plans | (7.7) | (10.3) | (11.2) |
| | <u>(5.6)</u> | <u>(6.4)</u> | <u>4.3</u> |
| | <u>52.6</u> | <u>47.5</u> | <u>58.2</u> |

The credit/(charge) to the Group's Profit and Loss account reserve have been as follows:

| | 30 June 2004 £m | 30 June 2003 £m | 31 December 2003 £m |
|---|--------------------------------|--------------------------------|------------------------------------|
| (Deficit)/surplus on transactions in own shares | (0.5) | (1.4) | 1.0 |
| Net decrease/(increase) in cost of own shares | 5.6 | 6.4 | (4.3) |
| | <u>5.1</u> | <u>5.0</u> | <u>(3.3)</u> |

NORTHERN ROCK GROUP INTERIM RESULTS

19. Capital Structure

| | 30 June 2004 | 30 June 2003 (Restated) | 31 December 2003 (Restated) |
|-----------------------------|-------------------------|--|--|
| | £m | £m | £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 | 1,313.9 | 1,132.8 | 1,201.9 |
| Reserve capital instruments | 286.4 | 253.8 | 266.3 |
| Tier one notes | 200.0 | 200.0 | 200.0 |
| Goodwill | (28.9) | (32.5) | (30.7) |
| Total Tier 1 capital | 1,909.4 | 1,692.1 | 1,775.5 |
| Upper Tier 2 | | | |
| Perpetual subordinated debt | 746.4 | 350.3 | 350.3 |
| Reserve capital instruments | 13.6 | 46.2 | 33.7 |
| General provisions | 82.0 | 70.8 | 75.4 |
| Total Upper Tier 2 capital | 842.0 | 467.3 | 459.4 |
| Lower Tier 2 | | | |
| Term subordinated debt | 769.3 | 769.2 | 769.2 |
| Total Tier 2 capital | 1,611.3 | 1,236.5 | 1,228.6 |
| Deductions | (299.7) | (174.8) | (190.5) |
| Total capital | 3,221.0 | 2,753.8 | 2,813.6 |
| Risk weighted assets | 20,153.0 | 17,836.2 | 19,690.5 |
| Tier 1 ratio (%) | 9.5% | 9.5% | 9.0% |
| Total capital (%) | 16.0% | 15.4% | 14.3% |

NORTHERN ROCK GROUP INTERIM RESULTS

20. Reconciliation of Operating Profit to Net Operating Cash Flows

| | Six months to 30 June | | Full Year |
|---|-----------------------|--------------------------------|--------------------------------|
| | <u>2004</u> | <u>2003</u> | <u>2003</u> |
| | <u>£m</u> | <u>(Restated)</u> <u>£m</u> | <u>(Restated)</u> <u>£m</u> |
| Operating profit | 200.3 | 185.9 | 386.6 |
| (Increase)/decrease in prepayments and accrued income | (50.1) | (17.0) | 37.9 |
| (Decrease)/increase in accruals and deferred income | (65.5) | (38.7) | 28.1 |
| Provision for bad and doubtful debts | 24.3 | 26.5 | 48.7 |
| Loans and advances written off net of recoveries | (14.0) | (18.4) | (30.3) |
| Depreciation and amortisation | 10.4 | 9.5 | 20.1 |
| Interest on subordinated liabilities | 36.7 | 31.5 | 62.0 |
| Interest on reserve capital instruments | 9.3 | 8.6 | 17.3 |
| Interest on tier one notes | 6.1 | 5.7 | 11.4 |
| Other non-cash movements | 7.6 | 3.2 | 14.7 |
| | | | |
| Net cash inflow from trading activities | 165.1 | 196.8 | 596.5 |
| | | | |
| Net increase in loans and advances to banks and customers | (5,361.4) | (5,336.2) | (9,631.9) |
| Net increase in deposits by banks and customer accounts | 41.2 | 725.0 | 1,147.7 |
| Net increase in debt securities in issue | 4,698.0 | 5,452.1 | 8,794.5 |
| Net decrease/(increase) in other assets | 13.1 | (19.9) | 2.6 |
| Net increase/(decrease) in other liabilities | 8.5 | 34.2 | (63.6) |
| | | | |
| Net cash (outflow)/inflow from operating activities | (435.5) | 1,052.0 | 845.8 |

21. Basis of Preparation

Other than the changes set out in note 1, accounting policies and methods remain unchanged from those used in the preparation of the 2003 annual accounts.

22. Interim Dividends

| | |
|------------------|-------------------|
| Ex dividend date | 29 September 2004 |
| Record date | 1 October 2004 |
| Payment date | 29 October 2004 |

23. 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 2003 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 2004. The report is also available on the Northern Rock website www.northernrock.co.uk from 8.30am on 20 July 2004.

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 20 July 2004.

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 for the six months ended 30 June 2004 which comprises the consolidated profit and loss account, consolidated balance sheet, consolidated cashflow statement, reconciliation of movements in shareholders' funds and statement of total recognised gains and losses 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 2004.

PricewaterhouseCoopers LLP
Chartered Accountants

Newcastle upon Tyne
20 July 2004

NORTHERN ROCK GROUP INTERIM RESULTS

Contacts

City Contacts

Bob Bennett
Group Finance Director
0191 279 4366

Dave Jones
Deputy Finance Director
0191 279 4474

Richard Moorin
Investor Relations
0191 279 4093

Press Contacts

Tony Armstrong
Communications Director
0191 279 4676

Ron Stout
PR Manager
0191 279 4676

James Murgatroyd
Finsbury Limited
020 7251 3801

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 risk 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.