

NORTHERN ROCK PLC
INTERIM RESULTS
6 MONTHS ENDED 30 JUNE 2007

NORTHERN ROCK GROUP INTERIM RESULTS

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NORTHERN ROCK GROUP INTERIM RESULTS

25 July 2007

Northern Rock plc today issued its Interim Results for the six months ended 30 June 2007.

HIGHLIGHTS

Operating Performance

- Record H1 gross lending of £19.3 billion - an increase of 30.5%, with record H1 net lending of £10.7 billion - an increase of 47.3%
- Share of UK gross mortgage lending of 9.7% and net mortgage lending of 18.9%
- Total underlying assets of £113.0 billion - an increase of 28.3% from June 2006 underlying assets of £88.0 billion. Statutory assets of £113.5 billion, growth of 27.8%
- Credit quality remains robust. 0.47% of mortgage accounts 3 months or more in arrears (31 December 2006 - 0.42%) - around half of industry average

Profits

- Statutory profit before tax of £296.1 million up by 0.7% compared with H1 2006. Statutory profit attributable to equity shareholders of £188.2 million, up by 0.2%
- Underlying profit before tax, including gains on disposals, of £346.6 million up by 26.6% compared with H1 2006. Underlying profit attributable to equity shareholders of £223.7 million, up by 28.9%

Costs

- Statutory cost to income ratio increased to 29.3% (2006 full year - 27.3%). Underlying cost to income ratio improved to 26.6% (2006 full year - 28.4%)
- Cost to underlying asset ratio improved to 0.29% (2006 full year - 0.31%), 0.28% on a statutory basis (2006 -full year 0.30%)

Shareholder Value

- Statutory return on equity of 20.2% and underlying return on equity of 24.0%
- Statutory EPS of 45.5p (2006 first half - 45.1p) - an increase of 0.9%. Underlying EPS of 54.0p, an increase of 29.8%
- Dividend payout ratio to increase from 40% to 50%. Interim dividend per share of 14.2p (2006 interim - 10.9p) - an increase of 30.3%
- Basle II IRB Waiver approved by the FSA - future capital planning to include share buybacks

Social Responsibility

- The Northern Rock Foundation - supporting charitable causes - to receive £14.8 million

For a reconciliation of statutory and underlying results see note 3 on pages 26 to 28

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Adam J Applegarth, Chief Executive, said:

“Operationally Northern Rock had a good first half in 2007. Mortgage lending has been particularly strong with a gross market share of 9.7% and a net market share of 18.9%, helped by improvements in retention of home moving customers, keeping customers coming to the end of their product deals and a strong mortgage market. Credit quality remains robust.

The outlook for the full year is being impacted by sharp increases in money market and swap rates seen in the first half. This has resulted in a negative impact on net interest income as mortgage pricing in the market generally has lagged behind increases in funding costs in the year to date. Action has been taken with changes in our swap transaction policies to minimise exposures in the future to significant changes in interest rates.

We are pleased to have achieved approval for use of our Basle II rating systems. This means that the benefits of Basle II enable us to increase our 2007 interim dividend by 30%. Going forward our dividend payout rate increases to 50% of underlying EPS from around 40%. Future capital planning, including the reduction of capital hungry assets, will allow us to return capital to shareholders through a share buyback programme.

The medium term outlook for the Company is very positive”

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OPERATIONAL REVIEW

Introduction

Following the introduction of IFRS, the balance sheet and income statement are subject to a certain amount of volatility. This particularly arises from accounting for hedges which although economically effective are deemed under IFRS rules to be ineffective. In addition, volatility arises from fair value movements on derivatives taken out to minimise risk in respect of certain financial liabilities and instruments included in non shareholders' equity which themselves are not subject to fair value treatment. Where appropriate, such volatility is separately identified in the review of financial and operating results to enable underlying performance to be separately identified. Underlying total assets also exclude the fair value of derivative instruments due to volatility in such values.

As explained in note 2, the 2006 statutory Interim and Full Year Results have been restated to reflect changes in the presentation of certain hedge accounting adjustments. There is no impact on the 2006 underlying Interim or Full Year Results.

Overview

Strong lending volumes were achieved in the first half of 2007 resulting in underlying total assets of £113.0 billion, an increase of 28.3% compared with 30 June 2006.

Estimated gross residential lending market share at 9.7% for the first half of 2007, is ahead of the 8.7% share achieved in the second half of 2006. The estimated share of net residential lending was 18.9% compared with 14.5% in the second half of 2006. Both gross and net lending were supported by improved levels of retention of home moving customers and our continued strength of retaining customers at the end of their mortgage product. Redemption market share is estimated at 5.8%, remaining well below our estimated closing share of UK mortgage balances of 7.6%.

Our programme of disposal of capital inefficient assets commenced with the sale of commercial secured loans with a net book value of £833 million. This, together with lower levels of net lending of personal unsecured loans, means that our balance sheet has an improved risk profile with residential mortgage lending representing 91% of all outstanding loans (31 December 2006 - 90%).

Underlying profit before tax grew by 26.6% and underlying profit attributable to shareholders of £223.7 million grew by 28.9% compared with the first half of last year, partly reflecting the timing of gains on disposals. Growth in 2007 full year underlying profit attributable to all shareholders is anticipated to be in line with mean consensus, around 15%, reflecting the full year effect of increases in interest rates and competitive pressures for new mortgage lending as lenders delayed passing on increased rates to borrowers.

Lending

During the first half of 2007 Northern Rock again achieved record levels of total lending. Total gross lending was £19,326 million, an increase of 30.5% (2006 first half - £14,807 million), with total net lending (before disposals) of £10,714 million, an increase of 47.3% (2006 first half - £7,276 million). Prospects for the remainder of 2007 are good, with a pipeline of £6,197 million (30 June 2006 - £5,482 million) including a residential lending pipeline of £5,698 million (30 June 2006 - £4,955 million).

The commencement of the disposal of our commercial loan portfolio and lower unsecured net lending has resulted in a lower risk balance sheet. At 30 June 2007, 91% of our loans to customers were residential secured loans (31 December 2006 - 90%), 1% commercial secured loans (31 December 2006 - 2%) and 8% within our personal unsecured portfolios (31 December 2006 - 8%). With further asset disposals planned there will be ongoing improvement in the risk profile of our balance sheet.

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Lending (continued)

An analysis of lending by portfolio is set out in the following table:

£ millions	Residential	Buy to Let	Total Residential	Commercial	Unsecured	Total
2007 1st Half						
Gross	15,979	1,455	17,434	188	1,704	19,326
Net	9,170	899	10,069	91	554	10,714
Closing balances	81,212	6,181	87,393	818	7,829	96,040
2006 Full Year						
Gross	26,745	2,227	28,972	423	3,594	32,989
Net	13,592	1,498	15,090	40	1,491	16,621
Closing balances	72,011	5,281	77,292	1,560	7,277	86,129
2006 2nd Half						
Gross	15,230	1,031	16,261	164	1,757	18,182
Net	8,165	574	8,739	(32)	638	9,345
Closing balances	72,011	5,281	77,292	1,560	7,277	86,129
2006 1st Half						
Gross	11,515	1,196	12,711	259	1,837	14,807
Net	5,427	924	6,351	72	853	7,276
Closing balances	63,912	4,704	68,616	1,594	6,638	76,848

Note: Net flows represent net cashflows excluding fair value adjustments and excluding asset disposals. Closing balances are stated including fair value adjustments.

Residential – UK market

The UK residential lending market continued to be strong in the first half of 2007 with an estimated increase in gross lending of 11%. Increases in interest rates though are showing signs of affecting consumer confidence and volumes of housing transactions. This effect is, however, more than offset by growth in values of mortgage lending from housing transactions, reflecting house price appreciation of recent years, and in addition, remortgage activity as customers protect budgets against higher costs of borrowing. We expect gross lending to be ahead of levels seen in 2006 of £345 billion at around £370 billion providing strong support to our lending volumes. We also expect to see house price inflation continue to slow in the second half of 2007 to end the year in line with increases in earnings.

Residential – Northern Rock performance

We achieved gross residential lending including buy to let of £17,434 million (2006 first half - £12,711 million) and net residential lending of £10,069 million (2006 first half - £6,351 million), representing increases of 37% and 59% respectively. The following table sets out our market share statistics since 2004:

Residential lending market shares	2004 FY	2005 FY	2006 H1	2006 H2	2006 FY	2007 H1 (estimated)
Gross lending	6.8%	8.1%	7.8%	8.7%	8.3%	9.7%
Redemptions	4.5%	5.1%	5.9%	5.9%	5.9%	5.8%
Net lending	11.2%	14.5%	12.2%	14.5%	13.4%	18.9%
Closing balances	5.5%	6.4%	6.7%	7.1%	7.1%	7.6%

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Lending (continued)

The table above shows the continued success at growing gross market share and containing levels of redemptions through our customer retention process and fair and transparent policy of allowing existing customers, subject to their contractual terms, to transfer their loan to products available to new borrowers. 80% of our customers by value remain with us 3 months after the maturity of their product. Our approach to customer retention, which is unique amongst the major volume mortgage lenders, means that we do not need to significantly grow our gross lending volumes from new customers to achieve our asset growth targets.

Our gross lending has benefited from improvements in our retention of home moving customers in the past 6 months. We expect this to continue to increase as we make improvements to our processes, including an e-commerce option which will assist intermediaries. Lending to returning home movers now represents over 15% of new lending.

In the first half of 2007, 89% of our gross residential lending continued to be originated via the indirect market (2006 full year - 89%) reflecting the importance of mortgage clubs and networks to our distribution strategy. Of this indirect business 91% was transacted via our e-commerce platform compared with 74% for all of 2006.

The profile of our new lending has remained low risk despite the strong growth in volumes. Lending to first time buyers reduced to 20% (2006 full year - 24%) resulting in 80% (2006 full year - 76%) of new customers having a proven payment track record. The average Loan to Value ratio ("LTV") of lending in the first half of 2007 remained unchanged at 78%, with the proportion of loans at or below 90% LTV improving to 81% (2006 full year - 78%). The average LTV of our mortgage book is now 59% (31 December 2006 - 60%) and over 70% of balances are below 80% LTV which continues to provide strong cover in the event of default. Only 4.1% of our lending in the first half was in respect of loans over £1.0 million. New lending continued to be geographically spread across the UK in line with the demographics of the population.

Our lifestyle products comprise our "together" family of products, Lifetime and residential buy to let mortgages. The "together" products combine a secured and unsecured loan at one interest rate and one monthly payment, with the majority arranged on a fixed rate basis. Our Lifetime range is aimed at homeowners aged 60 and over, who wish to utilise equity in their homes to enhance their lifestyle. An analysis of lifestyle lending is set out in the following table:

Lifestyle lending	Together	Lifetime	Buy to Let	Total
2007 H1				
% share of new lending	26.1%	0.5%	8.3%	34.9%
% share of closing balances	23.8%	2.5%	7.1%	33.4%
2006 FY				
% share of new lending	31.4%	0.9%	7.7%	40.0%
% share of closing balances	23.4%	2.7%	6.8%	32.9%

Of our traditional price-led mortgage products, fixed rate mortgages remained the most popular with 44.1% (2006 full year - 32.4%) of total new lending accounted for by short term fixed products up to two years, and 16.8% (2006 full year - 22.5%) by longer term fixes normally up to a maximum of seven years. The demand for shorter term fixed rates increased in the first half as the prospects for rising short term interest rates increased and customers benefited from delays in upward pricing of new mortgage products.

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Lending (continued)

Unsecured

Our personal unsecured credit portfolios comprise the unsecured element of “together” lending and standalone unsecured loans not linked to a residential mortgage. An analysis of lending volumes on the separate elements of our unsecured portfolios is shown in the following table:

£ millions	Standalone Unsecured	Together Unsecured	Total
2007 1st Half			
Gross	1,101	603	1,704
Net	232	322	554
Closing balances	4,497	3,332	7,829
2006 Full Year			
Gross	2,332	1,262	3,594
Net	782	709	1,491
Closing balances	4,221	3,056	7,277
2006 2nd Half			
Gross	1,150	607	1,757
Net	324	314	638
Closing balances	4,221	3,056	7,277
2006 1st Half			
Gross	1,182	655	1,837
Net	458	395	853
Closing balances	3,924	2,714	6,638

Standalone gross lending was at a similar level to that achieved in the second half of 2006 with net lending lower as the portfolio matures and redemptions and repayments increase.

Volumes of “together” unsecured lending have also remained at levels similar to the last two half year periods. At 30 June 2007 our unsecured lending balances were £7,829 million (31 December 2006 - £7,277 million) of which 42.6% (31 December 2006 - 42.0%) represented “together” unsecured advances.

Commercial

Under Basle II, commercial lending is not capital efficient for Northern Rock. Consequently we have decided to exit this market for our own balance sheet purposes but will originate and on-sell commercial loans to Lehman Commercial Mortgage Conduit Limited. On 22 June 2007 we completed the sale of commercial loans with a net book value of £833 million and have agreed to sell up to a further £730 million of such loans in the second half.

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Arrears and Possessions

The arrears position of each of our personal lending portfolios based upon accounts three months or more in arrears is set out in the following table:

	Residential	Together Secured	Standalone Unsecured	Together Unsecured	CML Residential Average
30 June 2007	0.47%	0.90%	1.11%	0.97%	n/a
31 December 2006	0.42%	0.84%	1.09%	0.85%	0.89%
30 June 2006	0.45%	0.95%	1.08%	0.97%	0.96%

Note: CML Residential Average Arrears shown at 31 December 2006 and 30 June 2006. Data at 30 June 2007 not yet available. Source: Council of Mortgage Lenders.

As interest rates rise, it is inevitable that arrears will face upward pressure, particularly for those customers on variable rates. Customers on fixed rates are protected from rate rises until the end of the fixed term, when they potentially face an increase in rate as they switch product, although product developments including higher fees to offset higher rates are beneficial to customers' affordability needs. In recognition of tightening credit conditions, during 2006 and 2007 we increased our scorecard acceptance cut offs resulting in improved quality of new lending across our portfolios compared with that of earlier years.

Our residential arrears continue to be around half the industry average as reported at 31 December 2006, the latest available data. Although our three month plus arrears increased in the first half, early arrears i.e. under 3 months fell from the level that existed at both 31 December 2006 and 30 June 2006. The "together" secured three months plus arrears increased to 0.90% (31 December 2005 - 0.84%) but remain around the industry average for secured residential loans. The three months plus arrears figure for our standard loan portfolio increased to 0.33% (31 December 2006 - 0.28%) at around a third of the industry average for mortgage loans. Residential buy to let arrears on the same basis were 0.58% (31 December 2006 - 0.52%) bringing the arrears to just below the buy to let industry average at 31 December 2006 as the book matures.

At 30 June 2007, properties in possession were 1,314 representing 0.17% of all accounts compared with 662 (0.09%) at the end of 2006. New possession cases in the first half of 2007 amounted to 1,536 in line with our policy of active management where it is clear the borrower is unwilling to maintain payments and where we have higher risk.

Standalone personal unsecured loan arrears remain significantly better than industry average and only marginally ahead of those seen over the last 12 months, reflecting our policy of attracting high quality lending and use of our bespoke scorecard to avoid lower quality lending. We continue to monitor and adjust our scorecard ratings in response to tighter conditions in the unsecured market and in particular customer over indebtedness. Arrears on "together" unsecured loans are the same as at 30 June 2006 and remain better than standalone unsecured loans.

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Funding

Northern Rock has four distinct funding arms enabling it to attract funds from a wide range of customers and counterparties on a global basis. Flows of new funding and closing balances are shown in the following table:

£ millions	Retail	Non-Retail	Securitisation	Covered Bonds
2007 1st Half				
Net flow	1,734	2,509	5,632	2,194
Closing balances	24,350	26,710	45,698	8,105
2006 Full Year				
Net flow	2,527	2,876	10,628	2,733
Closing balances	22,631	24,240	40,226	6,202
2006 2nd Half				
Net flow	861	5,205	4,794	1,351
Closing balances	22,631	24,240	40,226	6,202
2006 1st Half				
Net flow	1,666	(2,329)	5,834	1,382
Closing balances	21,773	19,570	36,334	4,965

Note: Net flows represent net cashflows excluding fair value adjustments. Closing balances are stated including fair value adjustments.

Retail

Retail funding comprised a net inflow of funds of £1,734 million including interest credited of £355 million, again demonstrating the strength and diversity of our retail franchise. In February, we opened an on line savings bank in Denmark and in the first half successfully attracted £255 million of new funds. This supplements our other off-shore retail operations with balances in our Ireland based operation of £1,608 million (31 December 2006 - £1,520 million) and £1,913 million (31 December 2006 - £2,094 million) in our Guernsey based vehicle. New on shore funds were primarily attracted through our on line savings accounts.

Non-Retail

Our non-retail funding provides a balanced mixture of short and medium term funding with continued diversification of our global investor base. In the first half we raised a net £2.5 billion of non-retail funds including £2.0 billion medium term wholesale funds from the US and Europe. This included US\$2.0 billion senior debt issued to domestic US investors and €1.0 billion raised from a benchmark senior debt issue targeted at European investors.

Securitisation

Funding through securitisation remains an integral part of Northern Rock's funding strategy. During the first half of 2007 two residential mortgage issues were completed raising £10.7 billion through our Granite programme. Diversification of our investor base continued with 73% of the securitised bonds being issued in US dollars or euros, and a small amount (2%) in Canadian dollars. The characteristics of the mortgages securitised, in terms of product type, LTV and geographic distribution remain similar to those of our non-securitised mortgages. At 30 June 2007, securitised notes amounted to £45.7 billion (31 December 2006 - £40.2 billion) which represented 43.6% (31 December 2006 - 43.1%) of our total funding portfolios.

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Funding (continued)

Covered Bonds

In the first half of 2007 we further increased the size of the Covered Bond programme to €30 billion and completed 3 further issues raising £2.2 billion. The bonds were issued in a range of maturities from 5 to 10 years and included a small privately placed sterling bond (£250 million) and our inaugural US dollar issue of \$1.5 billion (£754 million equivalent), continuing the process of further diversification of our investor base.

Assets

A reconciliation of total assets on a statutory and underlying basis (excluding fair value adjustments) is set out in the following table:

£ millions	30 June 2007	30 June 2006	31 December 2006
Statutory	113,506	88,821	101,011
Derivative financial instruments	(1,433)	(954)	(871)
Fair value adjustments of portfolio hedging	836	160	323
Other	77	8	5
Underlying	112,986	88,035	100,468

On a statutory basis, total assets are 12.4% higher than at the end of 2006 and 27.8% higher than 12 months ago. On an underlying basis, growth in total assets was 12.5% and 28.3% respectively.

Total Income and Net Interest Income

The following tables show net interest income and total income on a statutory and underlying basis (see notes 4 and 5). The underlying basis excludes volatile hedge ineffectiveness as we consider that our hedging is economically effective and that movements in fair value on individual hedges and underlying instruments will offset over time and do not form part of operational performance. Details are also provided of gains on disposals included in underlying results.

Statutory basis	6 months ended		Year ended
£ millions	30 June 2007	30 June 2006	31 December 2006
Net interest income	392.6	419.0	818.1
Other income	127.5	69.1	198.7
Total income	520.1	488.1	1,016.8
Underlying basis	6 months ended		Year ended
£ millions	30 June 2007	30 June 2006	31 December 2006
Net interest income	396.4	392.2	777.9
AFS gains	37.9	(3.0)	45.1
Realised gains on swaps	39.0	-	-
Total net interest income	473.3	389.2	823.0
Disposal of loan books	17.8	-	-
Other income	82.0	77.7	152.8
Total other income	99.8	77.7	152.8
Total income	573.1	466.9	975.8

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Total Income and Net Interest Income (continued)

On a statutory basis, total income in the first half of 2007 amounted to £520.1 million representing an increase of 6.6% over total income in the first half of 2006. On this basis the ratio of total income to mean total assets at 0.97% in the first half compares with the 2006 full year and half year ratios of 1.11% and 1.14%. Total income as a proportion of mean risk weighted assets at 5.79% compares with the 2006 full year and half year ratios of 3.56% and 3.65%.

On an underlying basis, total income, including gains on disposals, amounted to £573.1 million, in the first half of 2007 representing an increase of 22.7% over underlying total income in the first half of 2006. On this basis, the ratio of total income to underlying mean total assets at 1.07% in the first half compares with the 2006 full year and half year ratios of 1.08% and 1.10%. Total underlying income as a proportion of mean risk weighted assets at 6.38% compares with the 2006 full year and half year ratios of 3.42% and 3.49%.

Since 30 June 2006, the interest rate environment has deteriorated with five 25bps increases in Bank Base Rate and increases in money market and swap rates. During 2007 Bank Base Rate and 3 month LIBOR have both increased by around 75bps and 2 year swap rates by 85bps. In such an environment lenders have been slow to reflect increases in funding costs in new mortgage pricing with a dampening impact on mortgage spreads. This trend has continued throughout the first half, although there are signs of more normal pricing patterns returning to the market as lenders re-price upwards. The rapid increase in swap rates has also resulted in a negative drag on our net interest income as fixed rate interest swaps were transacted as mortgage lending completed. Our approach to transacting such swaps has now been revised to minimise the risk of timing mis-match. Although these effects will also flow through into 2008, given the success of our ability to retain customers, future income will benefit as the loans re-price in 2009 and beyond.

As the majority of our funding is priced by reference to money market rates, increases in LIBOR have also had a negative impact on net interest spread, although this impact has to some extent been offset by realised gains on swaps which were in overhedged positions and have been closed out in the period for example where the underlying loans have redeemed early. On an underlying basis, these net realised gains or losses represent the total gain or loss on the closed out derivative since its origination whilst not in a hedge accounting relationship. On a statutory basis these gains and losses are accounted for on a fair value basis in "Fair value movements of future cashflows on derivatives not in hedge accounting relationships" within "Net trading income" in the current period and for prior periods within "Net hedge ineffectiveness", both of which are excluded when stating underlying total income. Since this element of net trading income (and of net hedge ineffectiveness in prior periods) is excluded from underlying income, these gains and losses would never be reflected in underlying income, thus creating a permanent difference between statutory and underlying results, unless such gains and losses are included within underlying income in the period in which they are realised (see note 3).

In 2007, available for sale (AFS) gains were realised in the first half whereas in 2006 they arose in the second half of the year. This income line can include realisations on interest earning instruments which see gains when interest rates fall, or in the case of 2006 and 2007 gains on the maturity of investment funds.

As a consequence of the above factors underlying interest spread in the first half of 2007 fell to 68bps compared with 77bps and 75bps for the 2006 full year and half year respectively. For the 2007 full year it is currently anticipated that spreads will be slightly above 60bps.

Other income primarily comprises insurance commission generated on sales of third party products such as building and contents cover and payment protection insurance together with administration fees not included within interest margin. Although commission income grew in line with lending, other administration fees were lower than in the first half of last year due to lower levels of mortgage maturities.

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Costs

Total operating expenses amounted to £152.4 million representing an increase of 12.9% over the £135.0 million in the first half of 2006. The increase of 12.9% compares with an increase in underlying assets of 28.3% over the 12 months and a rise in underlying total income of 22.7%. This resulted in a cost to underlying asset ratio of 0.29% (30 June 2006 - 0.32%) and cost to underlying income ratio of 26.6% (30 June 2006 - 28.9%).

For the full year we also expect underlying cost ratios to be below those for the 2006 full year.

Social Responsibility - The Northern Rock Foundation

Northern Rock donates 5% of pre tax profit to The Northern Rock Foundation under a deed of covenant. Such donations are used to support community and charitable causes mainly in the North East of England and Cumbria. The covenant from 2007 first half profits amounts to £14.8 million (2006 first half - £14.7 million), resulting in donations of approximately £190 million since its inception in 1997 as an integral part of Northern Rock's conversion to a plc.

Loan Loss Impairment

The charge for loan loss impairment amounted to £56.8 million for the first half (2006 first half - £44.5 million) representing 0.12% of mean advances to customers (2006 first half - 0.12%).

Loan loss impairment provisions and coverage are set out in the following table:

	Residential	Buy to Let	Total Residential	Commercial	Unsecured	Total
30 June 2007						
Impairment provision £m	17.0	2.5	19.5	2.6	98.2	120.3
% share of closing balances	0.02%	0.04%	0.02%	0.32%	1.24%	0.13%
31 December 2006						
Impairment provision £m	21.3	4.9	26.2	7.4	92.4	126.0
% share of closing balances	0.03%	0.09%	0.03%	0.47%	1.25%	0.15%

The combination of high quality lending, low interest rates, low early arrears and continued strong average LTV of the portfolio have continued to contain the levels of loan loss impairment provisions required for residential mortgages. Write offs in the first half amounted to £8 million representing only 0.01% of outstanding residential mortgage balances.

The impairment charge for unsecured loans amounted to £55.9 million in the first half of 2007 compared with £33.5 million in the same period in 2006. Of the charge in 2007 almost 60% is derived from personal bankruptcies and IVAs many of which showed no signs of distress before defaulting. The slight reduction in impairment provision cover against the unsecured portfolios is consistent with an improvement in the quality of recent lending and the maturing of the portfolios.

We do not expect to see a higher impairment charge in the second half than in the first half of 2007, although the actual charge will be determined by the levels of personal bankruptcies and IVAs. Despite seeing IVAs slow in the last six months and the growth in personal bankruptcies plateau in the last three months, we will continue to manage credit risk carefully and continually improve our collection activity and underwriting policies.

NORTHERN ROCK GROUP INTERIM RESULTS

Taxation

The effective tax rate for the first half was 29.7% (30 June 2006 - 29.2%). We anticipate that with a reduced corporation tax rate of 28% taking effect from 1 April 2008, the ongoing effective tax rate will trend towards 28.0% in the medium term.

Profits and EPS

Details of profit before tax, profit attributable to shareholders and earnings per share on statutory and underlying bases are set out in the following tables:

Statutory basis	6 months ended		Year ended
	30 June 2007	30 June 2006	31 December 2006
PBT £m	296.1	293.9	626.7
Attributable profit £m	188.2	187.8	394.5
EPS p/share	45.5	45.1	94.6

Underlying basis	6 months ended		Year ended
	30 June 2007	30 June 2006	31 December 2006
PBT £m	346.6	273.7	587.7
Attributable profit £m	223.7	173.5	367.0
EPS p/share	54.0	41.6	88.1

The reconciliation of statutory and underlying results is set out in note 3 of the Interim Results (pages 26 to 28).

Statutory profit before tax of £296.1 million for the six months ended 30 June 2007 represents an increase of 0.7% over the equivalent statutory figure for 2006. Statutory profit attributable to equity shareholders for the first half of 2007 was £188.2 million, an increase of 0.2% over the 2006 statutory figure for the same period.

Compared with the 2006 first half underlying results, the underlying 2007 profit before tax of £346.6 million represents an increase of 26.6%, with underlying attributable profit rising by 28.9% to £223.7 million.

Return on equity for the first half of 2007 was 20.2% on a statutory basis and 24.0% on an underlying basis compared with 23.3% in the first half of 2006 on a statutory basis and 21.5% on an underlying basis.

Capital Management and Basle II

On 29 June 2007, we received notification of approval by the FSA of our Basle II waiver application. Our regulatory capital requirements, comprising both Pillar I and Pillar II, are therefore calculated under Basle II with effect from that date.

We have adopted the Retail Internal Ratings Based (IRB) approach for our residential and personal unsecured loans, the Foundation IRB approach for our treasury portfolios and the Standardised approach for commercial loans and operational risk.

The implementation of Basle II results in our Pillar I risk weighted assets at 30 June 2007 falling from around £33.9 billion under Basle I to £18.9 billion under Basle II, a reduction of some 44%. The risk weighting for our residential mortgages reduces to mid-teens %, treasury assets to around half of Basle I requirements, also around mid teens %, reflecting the low risk nature of these portfolios and personal unsecured loans to slightly below Basle I requirements.

NORTHERN ROCK GROUP INTERIM RESULTS

Capital Management and Basle II (continued)

Under Pillar II, the Group is required to hold capital to cover risks other than credit and operational risk and for risks not wholly captured under Pillar I. Overall, Pillar II capital is expected to amount to around 40% of our total capital requirements, including the effect of transitional adjustments that place a floor on capital requirements in the first three years of implementation. This floor is calculated as 8% of Basle I risk weighted assets less collective provisions, multiplied by 95% in 2007, 90% in 2008 and 80% in 2009.

We continue to treat securitised assets as “off balance sheet” for regulatory capital purposes, resulting in deductions from both Tier 1 and Tier 2 capital for the first loss piece retained by Northern Rock. Deductions are also equally made from Tier 1 and Tier 2 capital in respect of the excess of expected losses over provisions, whereas under Basle I Tier 2 capital benefited from the add back of collective provisions.

The introduction of Basle II, together with the planned disposal of capital inefficient assets and continued capital management such as the Whinstone programme results in an anticipated regulatory capital surplus over the next 3 to 4 years. This surplus will enable the reduction of previously planned subordinated debt issues and permit capital repatriation of up to £300 to £400 million over this period. Such repatriation will follow the release of capital as a result of asset disposals and will ensure that available capital is sufficient to support existing rating agency credit ratings and maintain an appropriate mix of Tier 1 and Tier 2 capital.

During the first half of 2007 we issued \$650 million (£328 million equivalent) of Upper Tier 2 subordinated debt.

Dividends

The introduction of Basle II, which requires less capital to support new lending, also enables a review of the Company’s dividend policy. It is proposed that for 2007 and beyond, dividends will be maintained at a payout ratio of around 50%. The interim dividend therefore increases by 30.3% to 14.2p (2006 - 10.9p) payable on 26 October 2007 to shareholders on the register on 28 September 2007.

Outlook

The core Northern Rock strategy of growth in our residential lending business continues. Spreads will be squeezed in 2007 as a result of the interest rate environment together with our decision to continue to lend as swap rates rose. This will also affect spreads in 2008, but even so we continue to expect good revenue growth from our core business.

Our strategic target for growth in underlying profit attributable to equity shareholders is 20% +/- 5%. The drag through impact of 2007 into 2008 means at this very early stage we expect to be at the bottom of this range for 2008, broadly in line with current mean consensus. The final outcome will be affected by how the interest rate and credit risk environments emerge and the prospects for the mortgage market. Further guidance will be provided at the year end.

In conjunction with the introduction of Basle II, we are adjusting our business model to improve our capital efficiency, reduce risk on the balance sheet and reduce loan impairment volatility. At the same time we are leveraging our distribution and servicing ability to broaden our income streams.

We are the most cost efficient lender in our sector and we remain positive on our outlook for the medium term.

NORTHERN ROCK GROUP INTERIM RESULTS

FINANCIAL HIGHLIGHTS

Key Performance Figures	Underlying			Statutory		
	Six months to 30 June		Full year	Six months to 30 June		Full year
	2007	2006	2006	2007	2006	2006
	£m	£m	£m	£m	£m	£m
Gross lending	19,326	14,807	32,989	19,326	14,807	32,989
Net lending	10,714	7,276	16,621	10,714	7,276	16,621
Net retail funding	1,734	1,666	2,527	1,734	1,666	2,527
Securitisation issues	10,723	9,020	17,764	10,723	9,020	17,764
Covered bond issues	2,194	1,382	2,733	2,194	1,382	2,733
Net non-retail funding	2,509	(2,329)	2,876	2,509	(2,329)	2,876
Risk weighted assets	18,948	27,216	30,827	18,948	27,216	30,827
Key Ratios – Balance Sheet	%	%	%	%	%	%
Balance sheet growth	12.5	8.6	23.9	12.4	7.4	22.1
Risk weighted assets growth	11.6	3.5	17.2	11.6	3.5	17.2
Key Ratios – Income and Expense	%	%	%	%	%	%
Total income : mean risk weighted assets	6.38	3.49	3.42	5.79	3.65	3.56
Interest margin	0.86	0.89	0.93	0.70	0.96	0.92
Cost to income ratio	26.6	28.9	28.4	29.3	27.7	27.3
Cost to mean asset ratio	0.29	0.32	0.31	0.28	0.31	0.30
Impairment charge as % of mean advances to customers	0.12	0.12	0.10	0.12	0.12	0.10
Impairment charge as % of mean risk weighted loans and advances to customers	0.77	0.40	0.34	0.77	0.40	0.34
Pre tax profit growth	26.6	14.4	16.5	0.7	13.3	26.8
Effective tax rate	29.7	29.2	29.3	29.7	29.2	29.3
Post tax profit growth	25.7	14.6	16.5	0.0	13.5	26.8
Attributable profit growth	28.9	16.1	19.1	0.2	14.7	31.2
Post tax return on mean equity	24.0	21.5	21.9	20.2	23.3	23.5
Post tax return on mean risk weighted assets	2.49	1.30	1.28	2.10	1.40	1.38
Shareholder Information						
Earnings per share (pence)	54.0	41.6	88.1	45.5	45.1	94.6
Growth in earnings per share (%)	29.8	15.2	18.6	0.9	13.9	30.5
Dividend per share – relating to period (pence)	14.2	10.9	36.2	14.2	10.9	36.2
Growth in dividend per share (%)	30.3	16.0	20.3	30.3	16.0	20.3

NORTHERN ROCK GROUP INTERIM RESULTS

Notes

1. Balance sheet growth in 2007 represents the growth in balance sheet assets between 31 December 2006 and 30 June 2007.
2. Post tax returns are calculated by reference to profit attributable to equity shareholders.
3. Underlying performance excludes the effects of fair value volatility and hedge ineffectiveness to present a more appropriate view of the ongoing underlying performance of the Group.
4. A reconciliation of statutory and underlying profits is shown in note 3 (pages 26 to 28).
5. In 2007 risk weighted assets are calculated in accordance with Basle II whereas 2006 risk weighted assets are as previously reported and calculated in accordance with Basle I. Risk weighted assets growth for 2007 is calculated by reference to risk weighted assets as at 30 June 2007 compared to 31 December 2006 calculated in accordance with Basle II.
6. Where applicable comparative ratios have been restated to reflect the revised presentation of “Net hedge ineffectiveness and other unrealised fair value gains and losses” as shown in note 2 (pages 24 and 25).

NORTHERN ROCK GROUP INTERIM RESULTS

FINANCIAL INFORMATION

STATUTORY CONSOLIDATED INCOME STATEMENT

	<u>Note</u>	<u>Six months to 30 June</u>		<u>Full year</u>
		<u>2007</u> <u>(Unaudited)</u> <u>£m</u>	<u>2006</u> <u>(Unaudited)</u> <u>(Restated)</u> <u>£m</u>	<u>2006</u> <u>(Audited)</u> <u>(Restated)</u> <u>£m</u>
Interest and similar income		3,190.5	2,294.1	4,934.8
Interest expense and similar charges		(2,797.9)	(1,875.1)	(4,116.7)
Net interest income	5	<u>392.6</u>	<u>419.0</u>	<u>818.1</u>
Fee and commission income		103.7	98.2	193.2
Fee and commission expense		(23.2)	(21.1)	(42.9)
Other operating income		0.8	0.6	1.4
Gains / (losses) on disposal of available for sale securities		37.9	(3.0)	45.1
Gains on disposal of loan books	6	17.8	-	-
Net trading income	7	<u>(9.5)</u>	<u>(5.6)</u>	<u>1.9</u>
		<u>127.5</u>	<u>69.1</u>	<u>198.7</u>
Total income	4	<u>520.1</u>	<u>488.1</u>	<u>1,016.8</u>
Administrative expenses		(138.4)	(120.5)	(247.2)
Depreciation and amortisation		(14.0)	(14.5)	(30.3)
Covenant to The Northern Rock Foundation		(14.8)	(14.7)	(31.4)
Operating expenses	8	<u>(167.2)</u>	<u>(149.7)</u>	<u>(308.9)</u>
Impairment losses on loans and advances	10	(56.8)	(44.5)	(81.2)
Profit before taxation		<u>296.1</u>	<u>293.9</u>	<u>626.7</u>
Income tax expense		(88.0)	(85.8)	(183.7)
Profit for the period		<u>208.1</u>	<u>208.1</u>	<u>443.0</u>
Attributable to:				
Appropriations		19.9	20.3	48.5
Profit attributable to equity shareholders		188.2	187.8	394.5
Total		<u>208.1</u>	<u>208.1</u>	<u>443.0</u>
Earnings per share	13			
Basic earnings per share		45.5p	45.1p	94.6p
Diluted earnings per share		45.1p	44.7p	93.8p

Details of dividends are set out in note 12.

NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY CONSOLIDATED BALANCE SHEET

	<u>Note</u>	30 June 2007 (Unaudited) £m	30 June 2006 (Unaudited) £m	31 December 2006 (Audited) £m
Assets				
Cash and balances with central banks		767.7	244.4	956.0
Derivative financial instruments		1,432.9	954.0	871.3
Loans and advances to banks		6,812.3	4,403.9	5,621.3
Loans and advances to customers	15	96,658.7	77,339.3	86,685.1
Fair value adjustments of portfolio hedging		(835.5)	(159.8)	(323.4)
Available for sale securities		8,000.4	5,510.4	6,510.1
Financial assets designated at fair value		119.1	-	120.3
Intangible assets		100.8	85.2	90.4
Property, plant and equipment		215.9	187.2	197.1
Deferred income tax asset		4.5	106.8	59.5
Other assets		33.7	29.0	37.6
Retirement benefit asset		13.3	-	-
Prepayments and accrued income		182.5	120.3	185.3
Total assets		113,506.3	88,820.7	101,010.6
Liabilities				
Deposits by banks		3,683.8	2,756.6	2,136.2
Customer accounts	17	30,122.8	25,351.0	26,867.6
Derivative financial instruments		2,872.8	1,215.3	2,392.5
Debt securities in issue				
Securitised notes		45,697.8	36,334.4	40,225.7
Covered bonds	16	8,104.9	4,964.6	6,201.8
Other		17,253.1	13,235.6	17,866.8
Other liabilities		141.1	110.2	122.6
Current taxation liabilities		62.2	109.3	73.6
Accruals and deferred income		928.5	660.1	919.7
Retirement benefit obligations		-	27.7	21.7
Subordinated liabilities		1,069.7	768.3	762.4
Tier one notes		187.5	207.8	209.4
		110,124.2	85,740.9	97,800.0
Equity				
Shareholders' funds				
Called up share capital		123.9	123.9	123.9
Ordinary		0.1	0.1	0.1
Preference				
Share premium account		6.8	6.8	6.8
Ordinary		396.4	396.4	396.4
Preference				
Capital redemption reserve		7.3	7.3	7.3
Other reserves		64.9	(5.0)	(1.3)
Retained earnings		1,746.9	1,514.5	1,641.6
Total equity attributable to equity shareholders		2,346.3	2,044.0	2,174.8
Non shareholders' funds				
Reserve capital instruments		299.3	299.3	299.3
Subordinated notes		736.5	736.5	736.5
Total non shareholders' funds		1,035.8	1,035.8	1,035.8
Total equity		3,382.1	3,079.8	3,210.6
Total equity and liabilities		113,506.3	88,820.7	101,010.6

NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY CONSOLIDATED CASHFLOW STATEMENT

	Six months to 30 June		Full year
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Net cash inflow from operating activities			
Profit before taxation	296.1	293.9	626.7
Adjusted for:			
Depreciation and amortisation	14.0	14.5	30.3
Impairment losses on loans and advances to customers	56.8	44.5	81.2
Income taxes paid	(69.1)	(40.7)	(114.2)
Other non cash movements	215.8	11.2	185.0
Net cash inflow from operating profits before changes in operating assets and liabilities	<u>513.6</u>	<u>323.4</u>	<u>809.0</u>
Changes in operating assets and liabilities			
Net increase in deposits held for regulatory or monetary control purposes	(7.2)	(12.8)	(22.6)
Net increase in loans and advances	(10,890.8)	(7,570.8)	(17,005.0)
Net (increase)/decrease in derivative financial instruments receivable	(561.6)	495.8	578.5
Net decrease/(increase) in other assets	6.7	(16.2)	(40.5)
Net increase in debt securities in issue	7,063.1	2,706.4	12,455.5
Net increase in deposits from other banks	1,547.6	1,219.8	599.4
Net increase in amounts due to customers	3,271.1	1,676.2	3,195.2
Net increase in derivative financial instruments payable	480.3	369.2	1,546.4
Net increase in other liabilities	18.5	46.0	28.8
Net increase/(decrease) in accruals and deferred income	8.8	(46.2)	213.4
Net cash inflow/(outflow) from operating activities	<u>1,450.1</u>	<u>(809.2)</u>	<u>2,358.1</u>
Net cash outflow from investing activities			
Net investment in intangible assets and property, plant and equipment	(43.2)	(28.1)	(59.0)
Purchase of securities	(3,020.2)	(1,971.0)	(3,605.1)
Proceeds from sale and redemption of securities	1,605.8	1,533.7	2,157.7
	<u>(1,457.6)</u>	<u>(465.4)</u>	<u>(1,506.4)</u>
Net cash inflow from financing activities			
Issue of subordinated liabilities	328.1	-	-
Issue of preference shares	-	396.5	396.5
Equity dividends paid	(105.0)	(86.6)	(132.3)
Appropriations (including tax of £8.5 million, 30 June 2006 - £8.7 million, 31 December 2006 - £20.8 million)	(28.4)	(29.0)	(69.3)
	<u>194.7</u>	<u>280.9</u>	<u>194.9</u>
Net increase/(decrease) in cash and cash equivalents	<u>187.2</u>	<u>(993.7)</u>	<u>1,046.6</u>
Opening cash and cash equivalents	6,317.7	5,271.1	5,271.1
Closing cash and cash equivalents	<u>6,504.9</u>	<u>4,277.4</u>	<u>6,317.7</u>

NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
Six months ended 30 June 2007									
Net movement in available for sale reserve		-	-	-	(70.1)	-	(70.1)	-	(70.1)
Net movement in cashflow hedges		-	-	-	158.5	-	158.5	-	158.5
Actuarial gains and losses		-	-	-	-	35.6	35.6	-	35.6
Tax effects of the above		-	-	-	(22.2)	(10.4)	(32.6)	-	(32.6)
Total of items recognised directly in equity		-	-	-	66.2	25.2	91.4	-	91.4
Profit for the period		-	-	-	-	188.2	188.2	19.9	208.1
Total recognised income and expense for the period		-	-	-	66.2	213.4	279.6	19.9	299.5
Note – reconciliation of movements in equity									
Total – as above		-	-	-	66.2	213.4	279.6	19.9	299.5
Dividends	12	-	-	-	-	(105.0)	(105.0)	-	(105.0)
Appropriations		-	-	-	-	-	-	(19.9)	(19.9)
Movement in own shares	18	-	-	-	-	(3.1)	(3.1)	-	(3.1)
Balance at 31 December 2006		124.0	403.2	7.3	(1.3)	1,641.6	2,174.8	1,035.8	3,210.6
Balance at 30 June 2007		124.0	403.2	7.3	64.9	1,746.9	2,346.3	1,035.8	3,382.1

NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
Six months ended 30 June 2006									
Net movement in available for sale reserve		-	-	-	(43.8)	-	(43.8)	-	(43.8)
Actuarial gains and losses		-	-	-	-	(18.0)	(18.0)	-	(18.0)
Tax effects of the above		-	-	-	12.8	5.4	18.2	-	18.2
Total of items recognised directly in equity		-	-	-	(31.0)	(12.6)	(43.6)	-	(43.6)
Profit for the period		-	-	-	-	187.8	187.8	20.3	208.1
Total recognised income and expense for the period		-	-	-	(31.0)	175.2	144.2	20.3	164.5
Note – reconciliation of movements in equity									
Total – as above		-	-	-	(31.0)	175.2	144.2	20.3	164.5
Issue of preference shares		0.1	396.4	-	-	-	396.5	-	396.5
Dividends	12	-	-	-	-	(86.6)	(86.6)	-	(86.6)
Appropriations		-	-	-	-	-	-	(20.3)	(20.3)
Movement in own shares	18	-	-	-	-	14.3	14.3	-	14.3
Reclassification of other reserves		-	-	-	14.9	(14.9)	-	-	-
Balance at 31 December 2005		123.9	6.8	7.3	11.1	1,426.5	1,575.6	1,035.8	2,611.4
Balance at 30 June 2006		124.0	403.2	7.3	(5.0)	1,514.5	2,044.0	1,035.8	3,079.8

NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
Year ended 31 December 2006									
Net movement in available for sale reserve		-	-	-	(38.1)	-	(38.1)	-	(38.1)
Actuarial gains and losses		-	-	-	-	(16.5)	(16.5)	-	(16.5)
Tax effects of the above		-	-	-	10.8	4.9	15.7	-	15.7
Total of items recognised directly in equity		-	-	-	(27.3)	(11.6)	(38.9)	-	(38.9)
Profit for the year		-	-	-	-	394.5	394.5	48.5	443.0
Total recognised income and expense for the year		-	-	-	(27.3)	382.9	355.6	48.5	404.1
Note – reconciliation of movements in equity									
Total – as above		-	-	-	(27.3)	382.9	355.6	48.5	404.1
Issue of preference shares		0.1	396.4	-	-	-	396.5	-	396.5
Dividends	12	-	-	-	-	(132.3)	(132.3)	-	(132.3)
Appropriations		-	-	-	-	-	-	(48.5)	(48.5)
Movement in own shares	18	-	-	-	-	(20.6)	(20.6)	-	(20.6)
Reclassification of other reserves		-	-	-	14.9	(14.9)	-	-	-
Balance at 31 December 2005		123.9	6.8	7.3	11.1	1,426.5	1,575.6	1,035.8	2,611.4
Balance at 31 December 2006		124.0	403.2	7.3	(1.3)	1,641.6	2,174.8	1,035.8	3,210.6

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS

1. Basis of Preparation

The financial information contained in this Interim Report has been prepared in accordance with the Listing Rules of the Financial Services Authority. The accounting policies and method used to prepare the 2007 Interim Results with the exception of the change in presentation detailed in note 2, remain unchanged from those used in the preparation of the 2006 full year statutory accounts. These Interim Results do not contain all the disclosures in IAS 34 "Interim Financial Reporting" as it is not mandatory for these results.

2. Prior Year Restatement

The Group enters into derivative financial instruments for economic hedging purposes. Some of these are designated and accounted for as IAS 39 compliant fair value or cashflow hedging relationships. Others which although effective as economic hedges are not accounted for as hedges within the statutory results. These derivatives include forward currency contracts, economic hedges of certain foreign currency assets and liabilities, wholesale funding and instruments included within non shareholders' funds and previously effective hedges which no longer meet the hedge accounting criteria and consequently have been de-designated and accounted for as trading derivatives.

The fair value movements of future cashflows (excluding accruals) on trading derivatives were previously separately identified within "Net hedge ineffectiveness and other unrealised fair value gains and losses", together with the translation gains and losses on underlying instruments arising from the retranslation from foreign currency into sterling. The periodic interest settlements and accruals on such derivatives are included within interest income or expense, as appropriate.

Net hedge ineffectiveness on fair value hedges represents the difference between changes in the fair value of future cashflows (excluding accruals) of the hedging derivatives and the changes in the fair value of future cashflows (excluding accruals) of the underlying hedged items. The periodic interest settlements and accruals on such derivatives are included within interest income or expense, as appropriate.

The disclosure of these items has been amended within the income statement. Hedge ineffectiveness on IAS 39 compliant fair value and cashflow hedges is now included within interest income or interest expense as appropriate and all other items previously recorded within net hedge ineffectiveness are now presented within net trading income. In addition, gains and losses on available for sale securities, previously included within interest receivable, have been reclassified as a separate component of income.

These changes mean it is necessary to amend the 2006 first half and full year previously published figures. In accordance with accounting practice and in the interests of comparability, the results for the six months ended 30 June 2006 and the year ended 31 December 2006 have therefore been restated. There is no impact on the overall results or net assets for either period.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

2. Prior Year Restatement (continued)

The impact on the previously published figures is as follows:

Six months to 30 June 2006	<u>As reported</u> <u>£m</u>	<u>Restatement</u> <u>£m</u>	<u>Restated</u> <u>£m</u>
Interest and similar income	2,280.4	13.7	2,294.1
Interest expense and similar charges	(1,878.5)	3.4	(1,875.1)
Net interest income	<u>401.9</u>	<u>17.1</u>	<u>419.0</u>
Fee and commission income	98.2	-	98.2
Fee and commission expense	(21.1)	-	(21.1)
Other operating income	0.6	-	0.6
Losses on disposal of available for sale securities	-	(3.0)	(3.0)
Net trading income	-	(5.6)	(5.6)
Net hedge ineffectiveness	8.5	(8.5)	-
Total income	<u>488.1</u>	<u>-</u>	<u>488.1</u>
Year to 31 December 2006	<u>As reported</u> <u>£m</u>	<u>Restatement</u> <u>£m</u>	<u>Restated</u> <u>£m</u>
Interest and similar income	4,972.3	(37.5)	4,934.8
Interest expense and similar charges	(4,123.2)	6.5	(4,116.7)
Net interest income	<u>849.1</u>	<u>(31.0)</u>	<u>818.1</u>
Fee and commission income	193.2	-	193.2
Fee and commission expense	(42.9)	-	(42.9)
Other operating income	2.5	(1.1)	1.4
Gains on disposal of available for sale securities	-	45.1	45.1
Net trading income	-	1.9	1.9
Net hedge ineffectiveness	14.9	(14.9)	-
Total income	<u>1,016.8</u>	<u>-</u>	<u>1,016.8</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

3. Underlying Results

Underlying results are reconciled to the statutory results in the following tables:

	Six months to 30 June 2007		
	<u>Profit</u> <u>before</u> <u>taxation</u>	<u>Profit for</u> <u>the period</u>	<u>Profit</u> <u>attributable to</u> <u>equity</u> <u>shareholders</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Reported statutory results	296.1	208.1	188.2
Interest implicit in forward foreign exchange contracts (note 5)	0.6	0.6	0.6
Hedge ineffectiveness within interest income (note 5)	29.5	29.5	29.5
	30.1	30.1	30.1
Realised gains on swaps (see below)	39.0	39.0	39.0
Interest implicit in forward foreign exchange contracts (note 5)	(23.5)	(23.5)	(23.5)
Hedge ineffectiveness within interest expense (note 5)	(2.8)	(2.8)	(2.8)
	(26.3)	(26.3)	(26.3)
Underlying adjustment to net trading income (note 7)	10.2	10.2	10.2
Impact of covenant to The Northern Rock Foundation	(2.5)	(2.5)	(2.5)
Associated taxation	-	(15.0)	(15.0)
Underlying results	346.6	243.6	223.7

	Six months to 30 June 2006		
	<u>Profit</u> <u>before</u> <u>taxation</u>	<u>Profit for</u> <u>the period</u>	<u>Profit</u> <u>attributable to</u> <u>equity</u> <u>shareholders</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Reported statutory results	293.9	208.1	187.8
Hedge ineffectiveness within interest income (note 5)	(10.7)	(10.7)	(10.7)
Interest implicit in forward foreign exchange contracts (note 5)	(12.7)	(12.7)	(12.7)
Hedge ineffectiveness within interest expense (note 5)	(3.4)	(3.4)	(3.4)
	(16.1)	(16.1)	(16.1)
Underlying adjustment to net trading income (note 7)	5.6	5.6	5.6
Impact of covenant to The Northern Rock Foundation	1.0	1.0	1.0
Associated taxation	-	5.9	5.9
Underlying results	273.7	193.8	173.5

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

3. Underlying Results (continued)

	Year ended 31 December 2006		
	<u>Profit</u>	<u>Profit for</u>	<u>Profit</u>
	<u>before</u>	<u>the year</u>	<u>attributable to</u>
	<u>taxation</u>		<u>equity</u>
	<u>£m</u>	<u>£m</u>	<u>shareholders</u>
			<u>£m</u>
Reported statutory results	626.7	443.0	394.5
Hedge ineffectiveness within interest income (note 5)	(7.6)	(7.6)	(7.6)
Interest implicit in forward foreign exchange contracts (note 5)	(26.1)	(26.1)	(26.1)
Hedge ineffectiveness within interest expense (note 5)	(6.5)	(6.5)	(6.5)
	(32.6)	(32.6)	(32.6)
Underlying adjustment to net trading income (note 7)	(0.8)	(0.8)	(0.8)
Impact of covenant to The Northern Rock Foundation	2.0	2.0	2.0
Associated taxation	-	11.5	11.5
Underlying results	587.7	415.5	367.0

Statutory and underlying results include within net interest income all periodic interest settlements and accruals on all derivative contracts, whether or not designated within an accounting hedge relationship. Excluded from underlying results is the impact of hedge accounting ineffectiveness on derivatives and associated hedged items where fair value hedge accounting has been obtained. This impact is included within net interest income in the statutory results.

Hedge accounting ineffectiveness recorded within interest income and expense on fair value hedges represents the difference between changes in the fair value of future cashflows (excluding accruals) of the hedging derivatives and the changes in the fair value of future cashflows (excluding accruals) of the underlying hedged items. Hedge ineffectiveness recorded within interest income and expense on cashflow hedges represents the difference between the cumulative gain or loss on the hedging instrument (excluding accruals), and the cumulative change in fair value of the expected future cashflows on the hedged item from inception of the hedge accounting relationship.

Underlying results also include the interest related fair value movements on forward exchange contracts that are not designated within a hedge accounting relationship. Interest implicit in forward exchange contracts represents the difference between the sterling cost implicit from the sterling leg of the derivative and the currency coupon on the foreign currency leg of the derivative translated at spot exchange rates. This is regarded as the interest element of the forward exchange contract. The remainder of the contract is the difference between the full fair value of the contract and the interest element of the contract and represents the currency fair value element of the contract. The currency fair value element of the forward exchange contract and translation gains and losses on foreign currency assets and liabilities are excluded from underlying results. These are included within net trading income in the statutory results.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

3. Underlying Results (continued)

Within the statutory results, all gains and losses on derivatives are recognised through income on a fair value basis. On an underlying basis, such fair value gains and losses are excluded as they represent the net present value of expected future cashflows on these instruments, which will be reflected in net interest income in future periods as they occur. Where derivatives are closed out prior to maturity, these future cashflows will not occur. However, the fair value relating to these cashflows will remain within “Fair value movements of future cashflows on derivatives not in hedge accounting relationships” as part of “Net trading income” (see note 7) on a statutory basis and will not move to net interest income over time. Since this element of net trading income is excluded from underlying income, these gains and losses would never be reflected in underlying income, thus creating a permanent difference between statutory and underlying results, unless such gains and losses are included within underlying income in the period in which they are realised. Such derivatives comprise those that were not accounted for in a hedge relationship at the point in time they were closed out that were:

- either in overhedged positions of the retail mortgage book; or
- transacted to hedge economically items not eligible for hedge accounting under IAS 39, such as equity.

These net realised gains represent the total gain or loss on the closed out derivatives since their origination whilst not in a hedge accounting relationship. On a statutory basis, these gains and losses were recognised in previous periods in the line item “Net hedge ineffectiveness”. For 2007, fair value gains and losses on derivatives outside a hedge accounting relationship are now recognised within “Net trading income”. These gains and losses are measured and recognised on a statutory basis in accordance with IFRS fair value requirements. On an underlying basis their recognition is in line with the timing of their realisation, on a cashflow basis, as opposed to the fair value basis used in IFRS. The table below details the recognition of these gains on both a statutory and underlying basis.

	Full year	Full year	Six months to	
	2005	2006	30 June	Total
	£m	£m	2007	£m
			£m	
Statutory	(12.4)	60.1	(8.7)	39.0
Underlying	-	-	39.0	39.0

There are no such realised gains or losses to be recognised in underlying income in prior periods as no derivatives meeting the above criteria were closed out prior to maturity.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

4. Total Income

	Six months to 30 June		Full year
	<u>2007</u>	<u>2006</u>	<u>2006</u>
		(Restated)	(Restated)
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Reported total income	520.1	488.1	1,016.8
Adjustments:			
Realised gains on swaps (note 3)	39.0	-	-
Underlying adjustment to net interest income (note 3)	3.8	(26.8)	(40.2)
Underlying adjustment to net trading income (note 7)	10.2	5.6	(0.8)
Underlying total income	<u>573.1</u>	<u>466.9</u>	<u>975.8</u>
Mean total assets	107,258.5	85,764.6	91,859.6
Mean total assets (underlying)	106,727.1	84,545.6	90,762.2
Mean risk weighted assets	17,965.3	26,756.1	28,561.2
Mean risk weighted assets (underlying)	17,965.3	26,756.1	28,561.2
Underlying total income : mean total assets (underlying)	1.07%	1.10%	1.08%
Underlying total income : mean risk weighted assets (underlying)	6.38%	3.49%	3.42%
Total income : mean total assets	0.97%	1.14%	1.11%
Total income : mean risk weighted assets	5.79%	3.65%	3.56%

Underlying total income includes the interest related fair value movements on forward currency contracts and excludes the hedge accounting ineffectiveness on fair value hedge relationships. It also excludes the currency fair value element of forward exchange contracts and translation gains and losses on foreign currency assets and liabilities.

Underlying total assets exclude the effect of fair value adjustments. Risk weighted assets are determined under Basle II for 2007 and Basle I for 2006.

5. Net Interest Income

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

For the purpose of calculating interest margin and spread, average balances for assets and liabilities denominated in foreign currencies, where these have been economically hedged, are based on the contract rate implicit in the associated hedging instrument.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

5. Net Interest Income (continued)

	Six months to 30 June		Full year
	<u>2007</u>	<u>2006</u> <u>(Restated)</u>	<u>2006</u> <u>(Restated)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Interest income			
Secured advances	2,546.1	1,863.7	3,989.0
Other lending	254.3	194.8	416.4
Investment securities and deposits	390.1	235.6	529.4
Interest income as reported	<u>3,190.5</u>	<u>2,294.1</u>	<u>4,934.8</u>
Adjusted for:			
Realised gains on swaps (note 3)	39.0	-	-
Hedge ineffectiveness (note 3)	29.5	(10.7)	(7.6)
Interest implicit in forward foreign exchange contracts (note 3)	0.6	-	-
Gains/(losses) on disposal of available for sale securities	37.9	(3.0)	45.1
Underlying interest income	<u>3,297.5</u>	<u>2,280.4</u>	<u>4,972.3</u>
Interest expense			
Retail customer accounts	571.7	454.5	958.3
Other deposits and loans	2,190.7	1,395.5	3,102.6
Subordinated liabilities	26.0	21.8	46.4
Other	2.2	(3.2)	(4.0)
Tier one notes	7.3	6.5	13.4
Interest expense as reported	<u>2,797.9</u>	<u>1,875.1</u>	<u>4,116.7</u>
Adjusted for:			
Hedge ineffectiveness (note 3)	2.8	3.4	6.5
Interest implicit in forward foreign exchange contracts (note 3)	23.5	12.7	26.1
Underlying interest expense	<u>2,824.2</u>	<u>1,891.2</u>	<u>4,149.3</u>
Net interest income as reported	<u>392.6</u>	<u>419.0</u>	<u>818.1</u>
Underlying net interest income	<u>473.3</u>	<u>389.2</u>	<u>823.0</u>
Average interest earning assets excluding fair value adjustments			
	106,050.5	84,224.3	88,787.6
Average interest bearing liabilities excluding fair value adjustments			
	102,734.0	81,627.8	85,957.0
Underlying interest margin	0.86%	0.89%	0.93%
Underlying interest spread	0.68%	0.75%	0.77%
Interest margin as reported	0.70%	0.96%	0.92%
Interest spread as reported	0.53%	0.82%	0.77%

Included within interest income is an adjustment of £1.6 million (30 June 2006: £1.6 million, 31 December 2006: £3.3million) with respect to the unwind of the discount included in the impairment allowance.

Gains on disposal of available for sale securities have been reclassified within underlying net interest income for the purpose of underlying results.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

6. Gains on Disposal of Loan Books

On 22 June 2007, the Group sold £833.1 million (net of provisions and fair value adjustments) of its commercial loan portfolio to Lehman Commercial Mortgage Conduit Limited. Proceeds (net of costs) of £850.9 million were received, the surplus on disposal amounted to £17.8 million and is recorded in other income. Included in the reported results for the six months ended 30 June 2007 is net interest income of £3.4 million (30 June 2006: £3.8 million, 31 December 2006: £7.8 million) in relation to those assets to the date of disposal.

7. Net Trading Income

Net trading income comprises:

	Six months to 30 June		Full year
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>£m</u>	<u>(Restated)</u>	<u>(Restated)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Net income from financial assets designated at fair value	0.7	-	1.1
Fair value movements of future cashflows excluding accruals on derivatives not in hedge accounting relationships	(536.3)	(1,189.6)	(2,811.8)
Translation gains	526.1	1,184.0	2,812.6
Net trading income as reported	<u>(9.5)</u>	<u>(5.6)</u>	<u>1.9</u>
Adjusted for:			
Fair value movements of future cashflows excluding accruals on derivatives not in hedge accounting relationships	536.3	1,189.6	2,811.8
Translation gains	(526.1)	(1,184.0)	(2,812.6)
	10.2	5.6	(0.8)
Underlying net trading income	<u>0.7</u>	<u>-</u>	<u>1.1</u>

8. Operating Expenses

Operating expenses, excluding the covenant to The Northern Rock Foundation, are as follows:

	Six months to 30 June		Full year
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Staff costs	95.2	77.8	162.0
Other expenses	43.2	42.7	85.2
Depreciation and amortisation	14.0	14.5	30.3
Total operating expenses	<u>152.4</u>	<u>135.0</u>	<u>277.5</u>

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

	Six months to 30 June		Full year
	<u>2007</u>	<u>2006</u>	<u>2006</u>
Full time	5,059	4,760	4,811
Part time	1,198	1,119	1,125

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

9. Interest Incentives and Fees

Included within the consolidated balance sheet are the following:

	Mortgage incentives £m	Fees receivable £m	Fees payable £m
Balance at 1 January 2007	420.1	(348.9)	234.0
Amounts charged / paid	494.1	(135.4)	85.6
Released in the period	(460.0)	106.2	(70.3)
Balance at 30 June 2007	<u>454.2</u>	<u>(378.1)</u>	<u>249.3</u>

	Mortgage incentives £m	Fees receivable £m	Fees payable £m
Balance at 1 January 2006	418.4	(292.0)	191.4
Amounts charged / paid	359.7	(111.9)	73.8
Released in the period	(337.5)	79.7	(54.7)
Balance at 30 June 2006	<u>440.6</u>	<u>(324.2)</u>	<u>210.5</u>

	Mortgage incentives £m	Fees receivable £m	Fees payable £m
Balance at 1 January 2006	418.4	(292.0)	191.4
Amounts charged / paid	740.9	(226.3)	158.6
Released in the year	(739.2)	169.4	(116.0)
Balance at 31 December 2006	<u>420.1</u>	<u>(348.9)</u>	<u>234.0</u>

10. Impairment Losses on Loans and Advances

	Six months to 30 June		Full year
	2007	2006	2006
	£m	£m	£m
Impairment charge			
Secured on residential property	4.3	5.2	5.9
Secured on residential buy to let property	(2.3)	4.0	0.5
Secured commercial	(1.1)	1.8	2.2
Unsecured	55.9	33.5	72.6
Total impairment charge	<u>56.8</u>	<u>44.5</u>	<u>81.2</u>
% of mean advances to customers	0.12%	0.12%	0.10%

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

10. Impairment Losses on Loans and Advances (continued)

	30 June 2007 £m	30 June 2006 £m	31 December 2006 £m
Impairment allowance			
Secured on residential property	17.0	26.0	21.3
Secured on residential buy to let property	2.5	6.6	4.9
Secured commercial	2.6	6.7	7.4
Unsecured	98.2	92.6	92.4
Total impairment allowance	<u>120.3</u>	<u>131.9</u>	<u>126.0</u>
% of period end advances to customers	0.13%	0.17%	0.15%

11. Residential Mortgage Arrears

	30 June 2007		30 June 2006		31 December 2006	
	Cases	%	Cases	%	Cases	%
3 – 6 months	2,346	0.30	2,356	0.34	2,433	0.33
Over 6 – 12 months	1,317	0.16	765	0.11	629	0.09
Over 12 months	46	0.01	20	-	34	-
Total	<u>3,709</u>	<u>0.47</u>	<u>3,141</u>	<u>0.45</u>	<u>3,096</u>	<u>0.42</u>

The percentage arrears are expressed as a percentage of the total number of residential mortgage customer accounts.

12. Dividends

The following tables analyse dividends when paid and the period to which they relate:

	Six months to 30 June 2007 pence per share		2006 pence per share	Full year 2006 pence per share
2005 final dividend	-	20.7		20.7
2006 interim dividend	-	-		10.9
2006 final dividend	25.3	-		-
	<u>25.3</u>	<u>20.7</u>		<u>31.6</u>

The proposed interim dividend in respect of 2007 amounts to 14.2 pence per share (£59.0 million). These Interim Results do not reflect this dividend payable.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

12. Dividends (continued)

	Six months to 30 June		Full year
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
2005 final dividend	-	86.6	86.6
2006 interim dividend	-	-	45.7
2006 final dividend	105.0	-	-
	<u>105.0</u>	<u>86.6</u>	<u>132.3</u>

13. Earnings per Share

Earnings per share figures based upon reported (basic) and underlying profit on ordinary activities attributable to equity shareholders (note 3) are as follows:

	Six months to 30 June		Full year
	<u>2007</u>	<u>2006</u>	<u>2006</u>
Weighted average number of Ordinary shares in issue	413.9m	416.8m	416.8m
Basic EPS	45.5p	45.1p	94.6p
Underlying EPS	54.0p	41.6p	88.1p

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

Diluted weighted average number of Ordinary shares in issue	417.0m	420.2m	420.7m
Diluted EPS	45.1p	44.7p	93.8p
Underlying diluted EPS	53.6p	41.3p	87.2p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 3.1 million (30 June 2006: 3.4 million, 31 December 2006: 3.9 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.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

14. 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>2007</u> %	<u>2006</u> %	<u>2006</u> %
Type of lending			
Fixed rate (long term – over 2 years)	17	24	23
Fixed rate (short term – up to and including 2 years)	44	25	32
Discount	4	6	5
Together	26	35	31
Lifetime	1	1	1
Buy to Let	8	9	8
Type of customer			
First time buyer	20	27	24
Next time buyer	45	41	44
Remortgage	35	32	32
Geographic spread			
North	12	16	14
Scotland / Northern Ireland	10	9	10
Midlands	23	26	26
South	55	49	50

15. Loans and Advances to Customers

	30 June <u>2007</u> £m	30 June <u>2006</u> £m	31 December <u>2006</u> £m
Advances secured on residential property not subject to securitisation	31,448.8	28,199.2	24,947.7
Advances secured on residential property subject to securitisation	49,762.7	35,712.8	47,063.4
	<hr/> 81,211.5	<hr/> 63,912.0	<hr/> 72,011.1
Residential buy to let loans not subject to securitisation	6,071.5	4,545.0	5,146.4
Residential buy to let loans subject to securitisation	110.0	159.2	134.2
	<hr/> 6,181.5	<hr/> 4,704.2	<hr/> 5,280.6
Total advances secured on residential property	<hr/> 87,393.0	<hr/> 68,616.2	<hr/> 77,291.7
Commercial secured advances not subject to securitisation	341.9	880.6	1,025.4
Commercial secured advances subject to securitisation	475.8	713.5	534.5
Total commercial secured advances	<hr/> 817.7	<hr/> 1,594.1	<hr/> 1,559.9
Unsecured loans not subject to securitisation	7,828.9	6,637.6	7,277.0
Unsecured investment loans	619.1	491.4	556.5
	<hr/> 96,658.7	<hr/> 77,339.3	<hr/> 86,685.1

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

16. Covered Bonds

Included within loans and advances to customers not subject to securitisation are £10,292.7 million (30 June 2006: £5,937.6 million, 31 December 2006: £7,283.1 million) of mortgage advances assigned to a bankruptcy remote special purpose vehicle. These loans provide security to issues of covered bonds made by Northern Rock, which are included within debt securities in issue amounting to £8,104.9 million (30 June 2006: £4,964.6 million, 31 December 2006: £6,201.8 million). Northern Rock retains substantially all the risks and rewards associated with these loans and therefore these transactions do not qualify for derecognition under IAS 39.

17. Analysis of Customer Accounts

	30 June 2007 £m	30 June 2006 £m	31 December 2006 £m
Branch accounts	5,597.2	5,562.5	5,572.8
Postal accounts	9,943.2	9,652.4	10,201.2
Internet accounts	4,129.4	1,856.9	2,224.9
Offshore accounts	3,775.8	3,559.1	3,613.7
Telephone accounts	440.8	616.7	527.5
Legal & General branded accounts	463.8	525.7	490.9
Total retail balances	<u>24,350.2</u>	<u>21,773.3</u>	<u>22,631.0</u>
Other customer accounts	<u>5,772.6</u>	<u>3,577.7</u>	<u>4,236.6</u>
	<u><u>30,122.8</u></u>	<u><u>25,351.0</u></u>	<u><u>26,867.6</u></u>

18. Own Shares

The (charge)/credit to retained earnings in respect of movements on own shares for the period is as follows:

	30 June 2007 £m	30 June 2006 £m	31 December 2006 £m
Employee share schemes - value of employee services	12.3	7.9	13.9
Cash received on exercise of employee options and for other employee share plans	1.6	5.1	6.6
Tax impact of share based payments	(0.6)	1.3	4.2
Purchase of shares	(16.4)	-	(45.3)
	<u>(3.1)</u>	<u>14.3</u>	<u>(20.6)</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

19. Capital Structure

Basle II

The following table is presented in accordance with Basle II requirements:

	30 June 2007 £m	31 December 2006 £m
Core Tier 1		
Ordinary share capital	123.9	123.9
Share premium on ordinary share capital	6.8	6.8
Capital redemption reserve	7.3	7.3
Retained earnings	1,746.9	1,641.6
Pension scheme	(9.3)	15.2
Total Core Tier 1 capital	<u>1,875.6</u>	<u>1,794.8</u>
Perpetual Non-Cumulative Preference Shares		
Preference share capital	0.1	0.1
Share premium on preference share capital	396.4	396.4
Tier one notes	187.5	209.4
Total Perpetual Non-Cumulative Preference Shares	<u>584.0</u>	<u>605.9</u>
Innovative Tier 1		
Reserve capital instruments	299.3	299.3
Total Innovative Tier 1 capital	<u>299.3</u>	<u>299.3</u>
Deductions from Tier 1		
Expected losses	(171.6)	(163.0)
Securitisation positions	(338.3)	(269.7)
Intangible assets	(100.8)	(90.4)
Total Deductions from Tier 1	<u>(610.7)</u>	<u>(523.1)</u>
Tier 1 capital after deductions	<u>2,148.2</u>	<u>2,176.9</u>
Upper Tier 2		
Perpetual subordinated debt	1,059.5	736.5
Collectively assessed impairment allowance	1.2	8.9
Total Upper Tier 2 capital	<u>1,060.7</u>	<u>745.4</u>
Lower Tier 2		
Term subordinated debt	746.7	762.4
Total Tier 2 capital	<u>1,807.4</u>	<u>1,507.8</u>
Deductions from Tier 2		
Expected losses	(171.6)	(163.0)
Securitisation positions	(338.3)	(269.7)
Total Deductions from Tier 2	<u>(509.9)</u>	<u>(432.7)</u>
Tier 2 capital after deductions	<u>1,297.5</u>	<u>1,075.1</u>
Total capital resources	<u>3,445.7</u>	<u>3,252.0</u>
Risk weighted assets	<u>18,948.0</u>	<u>16,982.6</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE RESULTS (CONTINUED)

19. Capital Structure (continued)

On 25 June 2007 \$650m (£328 million equivalent) of 6.594% Perpetual Fixed-to-Floating Rate Subordinated Notes were issued. The notes are not redeemable in the ordinary course of business before 28 June 2017 and subject to obtaining prior consent of the Financial Services Authority.

20. Final Dividend

The relevant dates for the 2007 interim dividend are as follows:

Ex dividend date	26 September 2007
Record date	28 September 2007
Payment date	26 October 2007

21. 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 2006 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 26 July 2007. The report will also be available on the Northern Rock website www.northernrock.co.uk from 8.30am on 25 July 2007.

A presentation of the results will be given by Directors on the morning of the results announcement. A live web cast of the presentation will be available on the Northern Rock website on 25 July 2007 from 9.30am. A recording of this web cast will subsequently be available on the Northern Rock website from 3.00 pm on 25 July 2007.

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 2007 which comprises the consolidated balance sheet as at 30 June 2007 and the related consolidated statements of income, cashflows and statement of recognised income and expense for the six months then ended and related notes. We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

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

These Interim Results have been prepared in accordance with the basis set out in Note 1 "Basis of Preparation" in the notes to the Interim Results.

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 management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. 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 and therefore provides a lower level of assurance. 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 2007.

PricewaterhouseCoopers LLP
Chartered Accountants
Newcastle upon Tyne
25 July 2007

Notes:

- (a) The maintenance and integrity of the Northern Rock web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

NORTHERN ROCK GROUP INTERIM RESULTS

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This document contains certain forward-looking statements 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.