

31 January 2001

NORTHERN ROCK GROUP ANNUAL RESULTS

Northern Rock plc today issued its preliminary results for the year ended 31 December 2000.

HIGHLIGHTS

- Record gross lending of £6.4 billion – an increase of 54%
- Record net lending of £3.6 billion – an increase of 86%
- Share of UK net mortgage lending of 6.5%, over twice opening par share
- Mortgage arrears down to half of industry average
- Assets under management up by 20.1% to £24.9 billion
- Total income margin increased to 1.94%
- Record pre tax profits of £250.1 million – an increase of 16.3%
- Record post tax profits of £182.0 million – an increase of 26.8%
- Earnings per share of 42.4p, an increase of 30.9%
- Ratios of cost to assets under management improved to 0.57% and cost to income improved to 31.5%
- Donation to The Northern Rock Foundation of £12.5 million – supporting charitable causes in the North East

Leo Finn, Chief Executive, said:

“These are excellent results. The pressing issues for our business have been consumerism, e-commerce and, as ever, margins and volume. We have embraced transparency in our customer relations. E-commerce is being integrated and producing volume business. We have achieved record levels of lending and our total income margin has stabilised. We remain optimistic about our future prospects.”

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Overview

A year ago we predicted that 2000 would see a renewed Northern Rock returning to high levels of growth. Such growth was demonstrated in our interim results and is confirmed by our results for the full year. In 2000 Northern Rock achieved much, including record volumes of lending and profits as well as a stable total income margin, against a background of intense competition and industry concerns over margin compression.

Over the last 18 months our business model has been revitalised but remains focussed on our core businesses. Securitisation provides an additional source of funding and has supported our growth in volume lending. We have improved significantly our distribution and processing capabilities and we are introducing e-commerce in a logical and integrated manner, enhancing customer service as well as improving cost efficiency.

Lending

During 2000 we achieved record levels of new business in all of our lending portfolios. Total gross lending was £6,362 million an increase of 54% (1999 - £4,134 million) with net lending of £3,621 million an increase of 86% (1999 - £1,949 million). We ended the year with a pipeline of £2.0 billion (1999 - £1.5 billion) providing an excellent start to 2001.

The residential lending market remained buoyant during 2000 despite early indications of a slowdown in lending volumes in the second half. Competition remained intense throughout the year, mainly from established lenders. We achieved gross residential lending of £5,102 million (1999 £3,579 million) and net lending of £2,662 million (1999 - £1,548 million) which represents an estimated market share of 6.5% (1999 – 4.1%), over twice our opening share of stock of 3.2% and in line with stated targets. We have maintained a consistent approach to risk with 62% of our residential lending at or below 90% LTV. 70% of customers continue to have a proven track record and we avoid large loans. We have also maintained an excellent geographic spread of lending.

We continue to expand our range of residential loan products. Traditional price-led mortgage loans with or without extended lock-in periods continue to be attractive to many customers. Increasingly, other customers are attracted to “lifestyle” products such as credit bundling or equity release products. Our “together” product combines a secured and unsecured loan with a credit card facility all at one interest rate and with flexible payments. New business volumes of “together” amounted to £1.9 billion of which 84% were advances secured on residential property. Our Home Equity Release Mortgage (HERM) aimed at older customers who wish to utilise equity in their homes to improve their income is gaining momentum and accounted for 2% of new lending.

Secured commercial lending continued to perform well with an increase in other secured advances of £267 million (1999 - £188 million). We intend to continue to develop our lending in this area.

Our unsecured portfolios comprising personal unsecured loans and credit cards, buoyed by the success of “together”, have seen excellent growth resulting in net lending of £692 million (1999 - £184 million). Of this £272 million relates to our “together” unsecured products.

Arrears and Possessions

Residential mortgage arrears continue to improve. At 31 December 2000 2,691 accounts were more than 3 months or more in arrears representing only 0.7% of all mortgage accounts, less than 50% of the UK average at 30 June 2000 and a 12% improvement compared with 12 months ago. The ‘together’ secured advances have continued to perform better than the mortgage book as a whole and better than traditional mortgages of the same vintage over 90% LTV. At 31 December 2000 only 288 properties were in possession compared with 352 at the end of December 1999.

Other loan portfolios continue to perform extremely well, with only 0.6% of our commercial loans and 1.4% of our personal unsecured loans three months or more in arrears.

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Distribution and Processing

We continue to develop our multi channel distribution strategy providing customers with the choice of how and when they transact business with us; directly in branches, by post, telephone, via e-commerce or indirectly via financial intermediaries.

70% of our new mortgage business comes via the intermediary market including major national networks and mortgage clubs. These loans are managed through our Decision Call Centre and associated processing centre with decisions communicated by telephone or internet. Since the introduction of the new systems in early 2000 our productivity and loan processing capacity has improved by 50%.

Our approach to e-commerce has remained consistent. We are adopting an integrated e-commerce solution focussing upon meeting real business opportunities and in particular building "Business to Business" links for intermediaries, as well as linking with mortgage clubs' own systems. In 2000 we processed loan applications of £545 million through our website, split roughly 60 / 40 between unsecured loans and mortgages.

Retail Funding

Retail funding continues to be an important part of our well balanced funding franchise. The net inflow of retail funds for the year amounted to £963 million, including interest credited of £280 million, resulting in retail deposits of £12.1 billion at 31 December 2000. Fixed rate bonds and base rate tracker accounts have continued to be popular and we will continue to develop innovative products that meet customer demands.

Our Irish funding arm has performed in line with expectations and at the end of the year had balances of £216 million. We expect to develop further our off-shore operations and are currently considering opportunities in continental Europe.

Non Retail Funding

Total new non retail funding for the year amounted to £1,140 million with total non retail balances at 31 December 2000 amounting to £8.2 billion. We will continue to utilise our non retail funding programmes especially in Europe and the United States. Our diversification of investors will be enhanced following SEC registration.

Already in 2001 we have raised \$750 million floating rate notes under our US Medium Term Note programme.

Securitisation

Northern Rock has been at the forefront of securitisation of residential mortgages during 2000 completing two issues during the year of £750 million and £1.3 billion respectively. The programme will continue to be developed with further issues during 2001. Securitisation provides an alternative source of funding which underpins our growth strategy and enhances capital efficiency. At 31 December 2000 securitised assets under management amounted to £2.4 billion, representing 12% of our total mortgage portfolio.

Assets

Assets under management, including securitised mortgage balances, at 31 December 2000 amounted to £24.9 billion, an increase of 20.1% compared with £20.7 billion at 31 December 1999. The balance sheet, including the securitised bonds (shown as a deduction from assets) has grown by 12.0% to £22.5 billion.

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Total Income and Margins

Total income as a proportion of mean total assets remained robust at 1.94% compared with 1.93% in 1999. In line with the rapid growth in assets under management, the total income to mean total assets under management ratio eased to 1.82% compared with 1.90% in 1999.

Group interest margin and spread is calculated taking into account interest recorded in the profit and loss account together with that recorded in the special purpose securitisation companies. Similarly, average interest earning assets and liabilities include those on balance sheet and those in the special purpose securitisation companies. From the second half of 1999 our interest spread and margins have stabilised following a period of rapid erosion. In 2000 interest margin and spread were 1.30% and 1.07% (1999 – 1.41% and 1.14%) respectively compared with the equivalent figures in the second half of 1999 of 1.36% and 1.10%.

Expenses

Our record of continuing cost efficiency providing key competitive advantages continues. Our ratio of cost to assets under management fell to 0.57% from 0.60% last year and our cost to income ratio fell to 31.5% from 31.6%.

We continue to invest in processing capacity and improvements to customer service to deliver volume growth and customer satisfaction. The costs of our integrated e-commerce developments are fully accounted for within our recurring costs. At the same time efficiencies were achieved in distribution and mortgage service centres resulting in a reallocation of expenditure.

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, but not exclusively, in the North East of England. The donation from 2000 profits amounts to £12.5 million (1999 - £10.8 million).

Provisions

The total charge for provisions for bad and doubtful debts amounted to £16.9 million for the year (1999 - £11.9 million) representing 0.10% of mean advances to customers (1999 – 0.08%). The increase in the total charge reflects higher volumes of secured commercial lending and personal unsecured lending offset by the beneficial impact of lower residential arrears and positive house price inflation.

Taxation

The underlying effective tax rate for the year was 31.0% compared with 31.5% for 1999.

The tax charge for the year was reduced by a one off tax credit of £10.4 million in relation to conversion costs incurred in 1996 and 1997 and previously disallowed.

Profits and EPS

Reported profit before tax for the year amounted to £250.1 million, an increase over the 1999 figure of 16.3%. Profit after tax on the same basis increased by 26.8% to £182.0 million, a return on equity of 19.9%.

Underlying results are shown in note 8 for both 2000 and 1999 adjusting for provisions for the loss on disposal of care homes and other non recurring items. Underlying profit before tax increased by 9.9% to £253.1 million and underlying profit after tax increased by 10.7% to £174.6 million. Underlying return on equity was 19.1% compared with 18.7% in 1999.

Earnings per share have grown by 30.9% to 42.4p in 2000 with underlying earnings per share up by 14.0% to 40.6p.

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Dividends

The proposed final dividend is 10.4p per share payable on 31 May 2001 to shareholders on the register on 27 April 2001. This results in a total dividend payable for the year of 15.5p per share, a 14.0% increase over the 1999 dividend of 13.6p per share.

Capital

During the first half of 2000, 25.2 million Ordinary shares were purchased and subsequently cancelled. The total cost of the purchases, including the purchase of Foundation shares sufficient to maintain a 15% holding in the Company, amounted to £89.3 million. The buybacks were undertaken as part of our ongoing capital management strategy.

In the second half we took the opportunity to issue Reserve Capital Instruments (RCIs) totalling £200 million. The RCIs are eligible for inclusion in Tier 1 capital, up to a maximum of 15% of total Tier 1 capital. Any surplus RCI balances are eligible for inclusion in Upper Tier 2 capital. Payments in relation to the RCIs are tax deductible and contribute to a lowering of the weighted average cost of capital.

At 31 December 2000 total capital amounted to £1.7 billion resulting in a total capital ratio of 13.9%. Tier 1 capital was £1,077.1 million and the Tier 1 ratio 9.0%. The comparable ratios at 31 December 1999 were 13.8% and 8.7% respectively.

Care Homes

In 1999 we provided for the anticipated loss on sale of the assets of our care home business. Although negotiations with a potential purchaser were terminated early in 2000 we continued discussions with other interested parties. We have accepted offers for all of the 37 homes available for sale. At 31 December 2000 completion had been achieved on 31 of the homes with completion on the remaining 6 homes expected by the end of February 2001. As a result of the piecemeal sale of the homes it has been necessary to incur an additional loss on sale of £3.1 million.

Management Changes

Further to the announcement made on 8 December 2000, Leo Finn will retire from the Board of the Company following the Annual General Meeting to be held on 24 April 2001. He will be replaced as Chief Executive on 1 March 2001 by Adam Applegarth, currently an Executive Director of the Company.

Bob Bennett continues as Group Finance Director and David Baker, Executive Director becomes Chief Operating Officer.

Outlook

The strategy put in place to revitalise Northern Rock is working and has produced results differentiating Northern Rock within the banking sector. Our focus is our strength and enables us to manage change. We aim to continue to grow all of our lending portfolios, concentrating on lending to individuals without reducing quality. Securitisation capabilities will be expanded as will our successful retail and non retail funding franchises. Investment in systems, premises and people to ensure that we have the capacity to grow will continue, aiming to improve efficiency. We are confident of our prospects for the coming year.

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FINANCIAL HIGHLIGHTS

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Key Performance Figures		
Gross lending	6,362	4,134
Net lending	3,621	1,949
Net retail funding (including interest credited)	963	306
Net non retail funding	1,140	1,274

	<u>%</u>	<u>%</u>
Key Ratios - Balance Sheet		
Growth in assets under management	20.1%	13.6%
Balance sheet growth	12.0%	10.5%
Total capital ratio	13.9%	13.8%
Tier 1 ratio	9.0%	8.7%

	<u>2000</u>		<u>1999</u>	
	<u>Reported</u>	<u>Underlying</u>	<u>Reported</u>	<u>Underlying</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>

Key Ratios - Profit and Loss

Total income : mean total assets	1.94%	1.94%	1.93%	1.93%
Total income : mean assets under management	1.82%	1.82%	1.90%	1.90%
Interest margin	1.30%	1.30%	1.41%	1.41%
Interest spread	1.07%	1.07%	1.14%	1.14%
Cost to income ratio	31.5%	31.5%	32.5%	31.6%
Cost to asset ratio	0.61%	0.61%	0.63%	0.61%
Cost to assets under management ratio	0.57%	0.57%	0.62%	0.60%
Provision charge as a % of mean advances to customers	0.10%	0.10%	0.08%	0.08%
Pre tax profit growth	16.3%	9.9%	(0.6)%	6.4%
Effective tax rate	27.2%	31.0%	33.3%	31.5%
Post tax profit growth	26.8%	10.7%	(1.8)%	7.9%
Post tax return on mean equity	19.9%	19.1%	17.0%	18.7%
Post tax return on mean assets	0.85%	0.82%	0.75%	0.82%
Post tax return on mean assets under management	0.80%	0.77%	0.74%	0.81%

Shareholder Information

	<u>p/share</u>	<u>p/share</u>	<u>p/share</u>	<u>p/share</u>
Earnings per share	42.4p	40.6p	32.4p	35.6p
Fully diluted earnings per share	42.2p	40.5p	32.3p	35.5p
Dividend per share	15.5p	15.5p	13.6p	13.6p

Notes

Cost ratios exclude the covenant to The Northern Rock Foundation. Non recurring costs in 1999 amounted to £3.6 million (2000 - £nil).

A reconciliation of reported and underlying profits is set out in note 8 on page 14.

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

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FINANCIAL INFORMATION

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<u>Note</u>	2000 (Unaudited) £m	1999 (Audited) £m
Interest receivable			
interest receivable and similar income arising from debt securities		212.9	165.7
other interest receivable and similar income		<u>1,231.2</u>	<u>1,060.2</u>
		1,444.1	1,225.9
Interest payable		(1,183.4)	(961.1)
Income from equity shares and variable yield securities		<u>18.2</u>	<u>2.4</u>
Net interest income	1	<u>278.9</u>	<u>267.2</u>
Fees and commissions receivable		119.4	116.7
Fees and commissions payable		(13.7)	(21.9)
Other operating income		<u>29.6</u>	<u>8.5</u>
Total non interest income	4	<u>135.3</u>	<u>103.3</u>
Total income	1	<u>414.2</u>	<u>370.5</u>
Administrative expenses			
operating	5	(122.4)	(111.5)
covenant to The Northern Rock Foundation		(12.5)	(10.8)
Total administrative expenses		<u>(134.9)</u>	<u>(122.3)</u>
Depreciation	5	(8.2)	(9.0)
Operating expenses		<u>(143.1)</u>	<u>(131.3)</u>
Provisions for bad and doubtful debts	6	(16.9)	(11.9)
Amounts written off fixed asset investments		(1.0)	-
Operating profit		<u>253.2</u>	<u>227.3</u>
Provision for loss on disposal of care homes		(3.1)	(12.2)
Profit on ordinary activities before tax		<u>250.1</u>	<u>215.1</u>
Tax on profit on ordinary activities		(68.1)	(71.6)
Profit on ordinary activities after tax		<u>182.0</u>	<u>143.5</u>
Appropriation attributable to non-equity interests		(3.2)	-
Profit attributable to ordinary shareholders		<u>178.8</u>	<u>143.5</u>
Dividends		(64.8)	(60.3)
Profit retained for the period		<u>114.0</u>	<u>83.2</u>
Earnings per share	9	42.4p	32.4p
Underlying earnings per share	9	40.6p	35.6p
Fully diluted earnings per share	9	42.2p	32.3p
Underlying fully diluted earnings per share	9	40.5p	35.5p

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CONSOLIDATED BALANCE SHEET

	<u>Note</u>	<u>2000</u> <u>(Unaudited)</u> <u>£m</u>	<u>1999</u> <u>(Audited)</u> <u>£m</u>
Assets			
Cash and balances at central banks		13.7	25.4
Loans and advances to banks		788.4	1,152.6
Loans and advances to customers		18,019.2	16,080.7
Securitised advances		2,377.6	576.3
Less: non recourse finance		(2,306.0)	(565.8)
	11	18,090.8	16,091.2
Debt securities		2,776.9	2,280.3
Equity shares and other variable yield securities		279.0	106.7
Tangible fixed assets		97.0	88.2
Other assets		30.4	54.3
Prepayments and accrued income		468.0	326.1
Total assets		22,544.2	20,124.8
Liabilities			
Deposits by banks		874.5	747.8
Customer accounts	13	13,941.1	12,745.6
Debt securities in issue		5,414.3	4,633.6
Other liabilities		163.4	170.2
Accruals and deferred income		510.0	418.7
Subordinated liabilities		525.4	525.4
Shareholders' funds - equity			
Called up share capital	14	123.9	130.6
Share premium account	14	6.8	-
Capital redemption reserve	14	7.3	-
Profit and loss account	14	777.5	752.9
		915.5	883.5
Shareholders' funds - non-equity			
Reserve capital instruments	15	200.0	-
Shareholders' funds		1,115.5	883.5
Total liabilities		22,544.2	20,124.8
Assets under management		24,850.2	20,690.6

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CONSOLIDATED CASHFLOW STATEMENT

	<u>2000</u> <u>(Unaudited)</u> <u>£m</u>	<u>1999</u> <u>(Audited)</u> <u>£m</u>
Net cash inflow from operating activities (note 17)	792.8	281.0
Returns on investments and servicing of finance	(46.6)	(34.6)
Taxation	(85.3)	(80.4)
Capital expenditure and financial investment	(630.2)	(373.1)
Equity dividends paid	(59.5)	(56.0)
Net cash outflow before financing	<u>(28.8)</u>	<u>(263.1)</u>
Financing	118.1	219.5
Increase/(decrease) in cash	<u><u>89.3</u></u>	<u><u>(43.6)</u></u>

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STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<u>2000</u> <u>(Unaudited)</u> <u>£m</u>	<u>1999</u> <u>(Audited)</u> <u>£m</u>
Profit attributable to ordinary shareholders	178.8	143.5
Total recognised gains and losses for the year	178.8	143.5
Prior year adjustment - Mortgage Incentive Costs	-	42.1
Total gains and losses recognised since last annual accounts	<u>178.8</u>	<u>185.6</u>

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

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

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2000</u> <u>(Unaudited)</u> <u>£m</u>	<u>1999</u> <u>(Audited)</u> <u>£m</u>
Profit on ordinary activities after tax	182.0	143.5
Appropriation attributable to non-equity interests	(3.2)	-
Dividends	<u>(64.8)</u>	<u>(60.3)</u>
	114.0	83.2
Issue of reserve capital instruments	200.0	-
Repurchase of shares	(89.3)	-
Issue of ordinary shares	5.2	-
Reversal of accrued dividend on repurchased shares	2.1	-
Net addition to shareholders' funds	<u>232.0</u>	<u>83.2</u>
Opening shareholders' funds	883.5	800.3
Closing shareholders' funds	<u>1,115.5</u>	<u>883.5</u>

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NOTES TO THE RESULTS

1. Total Income

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Net interest income	278.9	267.2
Other income	135.3	103.3
Total income	<u>414.2</u>	<u>370.5</u>
Mean total assets	21,334.5	19,169.8
Mean assets under management	22,770.4	19,452.7
Total income : mean total assets	1.94%	1.93%
Total income : mean assets under management	1.82%	1.90%

2. Interest Spread and Margin

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Interest receivable	1,572.8	1,238.6
Interest payable	(1,279.5)	(970.3)
Net interest income	<u>293.3</u>	<u>268.3</u>

Average balances

Interest earning assets	22,588.2	18,979.2
Interest bearing liabilities	21,729.3	18,021.3
Interest margin	1.30%	1.41%
Interest spread	1.07%	1.14%

Interest receivable and payable represents amounts reported in the Profit and Loss account adjusted to include interest recorded by the special purpose securitisation companies (see note 12) and income from equity shares and other variable yield securities. Interest bearing assets and liabilities have been adjusted for amounts included in the special purpose securitisation companies 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.

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3. Deferred Mortgage Incentive Costs

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

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Balance Sheet:		
Opening balance	164.5	103.7
Additions	226.5	197.6
Amortisation	(181.5)	(136.8)
Closing balance	209.5	164.5
Profit and Loss Account:		
Amortisation	142.5	104.4
Current year immediate write off	39.0	32.4
	181.5	136.8

4. Other Income

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Commissions	58.5	54.3
Fees (net of service charges)	41.7	36.0
Securitisation income	13.6	0.5
Others and subsidiaries	21.5	12.5
Total	135.3	103.3

5. Operating Expenses

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Staff costs	58.3	53.6
Other expenses	64.1	57.9
Depreciation	8.2	9.0
Total	130.6	120.5

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

Direct staff costs of care home subsidiaries have been charged against Other Income as follows:

	10.0	13.6
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The average number of persons employed by the Group was as follows:

	<u>Full Time</u>		<u>Part Time</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Core business	2,441	2,175	572	567
Subsidiaries - - administration	12	21	-	-
- - direct	629	883	616	888
Total	3,082	3,079	1,188	1,455

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6. Provisions for Losses on Loans and Advances

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Provisions charge:		
Specific		
Secured on residential property	5.2	7.9
Other secured	(0.8)	0.2
Unsecured	12.0	3.6
	16.4	11.7
General		
Secured on residential property	(1.5)	(4.2)
Other secured	2.8	1.1
Unsecured	(0.8)	3.3
	0.5	0.2
Total provision charge	16.9	11.9
 % of mean advances to customers	 0.10%	 0.08%
Provisions balance:		
Specific		
Secured on residential property	6.5	9.3
Other secured	1.4	2.5
Unsecured	10.8	3.2
Total	18.7	15.0
General		
Secured on residential property	14.5	16.0
Other secured	9.3	6.5
Unsecured	4.6	5.4
Total	28.4	27.9
Total provision balance	47.1	42.9
 % of period end advances to customers	 0.26%	 0.27%

7. Residential Mortgage Arrears

	<u>2000</u>		<u>1999</u>	
	Cases	% of Total Mortgages	Cases	% of Total Mortgages
3 - 6 months	1,601	0.4%	1,749	0.5%
6 - 12 months	800	0.2%	870	0.3%
Over 12 months	290	0.1%	447	0.1%
Total	2,691	0.7%	3,066	0.9%

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8. Underlying Results

Reconciliations between reported and underlying profit before tax (PBT), profit after tax (PAT) and attributable profit (Attrib) for 2000 and 1999 are set out in the following table:

	<u>PBT</u> £m	<u>2000</u> <u>PAT</u> £m	<u>Attrib</u> £m	<u>PBT</u> £m	<u>1999</u> <u>PAT</u> £m	<u>Attrib</u> £m
Reported result (page 7)	250.1	182.0	178.8	215.1	143.5	143.5
Adjustments:						
Provision for loss on disposal of care home business	3.1	3.1	3.1	12.2	12.2	12.2
Non recurring costs	-	-	-	3.6	3.6	3.6
Covenant to The Northern Rock Foundation	(0.1)	(0.1)	(0.1)	(0.7)	(0.7)	(0.7)
Tax credit on costs of conversion	-	(10.4)	(10.4)	-	-	-
Other tax effect	-	-	-	-	(0.9)	(0.9)
Underlying result	<u>253.1</u>	<u>174.6</u>	<u>171.4</u>	<u>230.2</u>	<u>157.7</u>	<u>157.7</u>

9. Earnings per Share

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

	<u>2000</u>	<u>1999</u>
Weighted average number of shares in issue	422.1m	443.5m
Basic EPS	42.4p	32.4p
Underlying EPS	40.6p	35.6p

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

Fully diluted weighted average number of shares in issue	423.4m	443.9m
Fully diluted EPS	42.2p	32.3p
Underlying fully diluted EPS	40.5p	35.5p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 1.3 million (31 December 1999: 0.4 million) potentially dilutive Ordinary shares resulting from options granted under The Northern Rock Sharesave 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.

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10. Mortgage Lending

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

	<u>2000</u>	<u>1999</u>
	%	%
Type of lending		
Fixed rate (long term)	3%	8%
Fixed rate (short term)	48%	40%
Discount	5%	21%
Cashback	9%	21%
"together"	33%	10%
HERM	2%	-
Type of customer		
First time buyer	30%	23%
Next time buyer	45%	50%
Remortgage	25%	27%
Geographic spread		
North	18%	19%
Scotland	9%	11%
Midlands	28%	25%
South	45%	45%

11. Loans and Advances to Customers

	<u>2000</u>	<u>1999</u>
	£m	£m
Advances secured on residential property	16,186.3	15,215.2
Advances secured on residential property (securitised)	2,377.6	576.3
Advances secured on residential property (under management)	<u>18,563.9</u>	<u>15,791.5</u>
Other secured advances	813.8	548.5
Unsecured loans	1,019.1	317.0
	<u>20,396.8</u>	<u>16,657.0</u>
Less: non recourse finance	(2,306.0)	(565.8)
	<u><u>18,090.8</u></u>	<u><u>16,091.2</u></u>

12. 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.

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

Securitisation transactions entered into are as follows:

Securitisation company	Date of securitisation	Gross assets securitised £m	Subordinated loans made by Group £m
Granite Mortgages 99-1 plc	1 October 1999	600	11
Granite Mortgages 00-1 plc	1 March 2000	750	13
Granite Mortgages 00-2 plc	25 September 2000	1,300	26

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

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

	<u>2000</u> £m	<u>1999</u> £m
Interest receivable	110.5	10.3
Interest payable	(96.1)	(9.2)
Net interest receivable	<u>14.4</u>	<u>1.1</u>
Other income	0.6	-
Administrative and other expenses	(1.4)	(0.6)
Profit for the financial period	<u>13.6</u>	<u>0.5</u>

13. Analysis of Customer Accounts

	<u>2000</u> £m	<u>1999</u> £m
Branch accounts	1,552.0	1,737.4
Postal accounts	5,028.6	4,012.1
Offshore accounts	2,103.3	1,721.0
Telephone accounts	3,368.5	3,619.1
Total retail balances	<u>12,052.4</u>	<u>11,089.6</u>
Other customer accounts	1,888.7	1,656.0
	<u>13,941.1</u>	<u>12,745.6</u>

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14. Equity Shareholders' Funds

	Ordinary Shares		Foundation Shares		Number	Total Share Capital £m
	Number	£m	Number	£m		
Issued and fully paid						
At 1 January 2000	444.0m	111.0	78.4m	19.6	522.4m	130.6
Repurchase of shares	(25.2m)	(6.3)	(4.0m)	(1.0)	(29.2m)	(7.3)
Shares issued	2.4m	0.6	-	-	2.4m	0.6
At 31 December 2000	<u>421.2m</u>	<u>105.3</u>	<u>74.4m</u>	<u>18.6</u>	<u>495.6m</u>	<u>123.9</u>
		Share Premium Account £m		Capital Redemption Reserve £m		Profit and Loss Account £m
At 1 January 2000		-		-		752.9
Repurchase of shares		-		7.3		(89.3)
Shares issued		6.8		-		(2.2)
Reversal of accrued dividends on repurchased shares		-		-		2.1
Profit retained for period		-		-		114.0
At 31 December 2000		<u>6.8</u>		<u>7.3</u>		<u>777.5</u>

During the year ended 31 December 2000 Ordinary shares with a nominal value of £6.3 million and Foundation shares with a nominal value of £1.0 million were repurchased for cancellation at a total cost of £89.3 million which has been charged against profit and loss account reserves.

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

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15. Reserve Capital Instruments

The Reserve Capital Instruments were issued for a value of £200 million on 21 September 2000 and are undated. They carry a coupon of 8.399% payable annually in arrears on 21 September each year. At each payment date Northern Rock will decide whether to declare or defer the coupon. If Northern Rock decides to declare the coupon, the holder will receive a cash payment equivalent to the coupon which, at Northern Rock's option, will be achieved either by the payment of cash directly, or by the issue of Ordinary shares in Northern Rock which when sold by a trustee in the market, will produce an amount equal to the cash payment. If Northern Rock elects to defer the coupon, it may not declare or pay a dividend on any share until the deferred coupons are satisfied. Deferred coupons and any interest accruing thereon can only be satisfied through the issue of shares. The coupon has been swapped into a variable rate payment.

Northern Rock has a call option after 15 years, which it can only exercise with the consent of the Financial Services Authority. If the issue is not called, the coupon resets to yield 4.725% above the prevailing 5-year benchmark Gilt rate.

The appropriation attributable to non-equity shareholders is stated net of tax and after the effect of the interest rate swap noted above.

The maximum amount of Reserve Capital Instruments permitted to be included in Tier 1 capital is 15% of overall Tier 1 capital. Any excess is allocated to Upper Tier 2 capital.

16. Capital Structure

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Tier 1		
Share capital	123.9	130.6
Share premium account	6.8	-
Capital redemption reserve	7.3	-
Profit and loss account	777.5	752.9
Reserve capital instruments	161.6	-
Total Tier 1 capital	<u>1,077.1</u>	<u>883.5</u>
Upper Tier 2		
Perpetual subordinated debt	281.3	241.3
Reserve capital instruments	38.4	-
General provisions	28.4	27.9
Total Upper Tier 2 capital	<u>348.1</u>	<u>269.2</u>
Lower Tier 2		
Term subordinated debt	244.1	251.4
Total Tier 2 Capital	<u>592.2</u>	<u>520.6</u>
Deductions	(8.3)	(3.7)
Total capital	<u>1,661.0</u>	<u>1,400.4</u>
Risk weighted assets	<u>11,986.2</u>	<u>10,135.3</u>
Tier 1 ratio (%)	9.0%	8.7%
Tier 2 to Tier 1 ratio (%)	55.0%	58.9%
Total capital (%)	13.9%	13.8%

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17. Reconciliation of Operating Profit to Net Operating Cash Inflows

	<u>2000</u> <u>£m</u>	<u>1999</u> <u>£m</u>
Operating profit	253.2	227.3
Increase in prepayments and accrued income	(141.9)	(135.9)
Increase in accruals and deferred income	90.1	30.4
Provision for bad and doubtful debts	16.9	11.9
Loans and advances written off net of recoveries	(12.7)	(11.8)
Depreciation and amortisation	8.2	9.0
Interest on subordinated liabilities	43.2	34.6
Other non-cash movements	(57.9)	(19.3)
Net cash inflow from trading activities	199.1	146.2
Net increase in loans and advances to banks and customers	(3,278.8)	(2,006.0)
Net increase in deposits by banks and customer accounts	1,322.2	349.4
Net increase in debt securities in issue	2,520.9	1,796.4
Net decrease/(increase) in other assets	20.5	(3.6)
Net increase/(decrease) in other liabilities	8.9	(1.4)
Net cash inflow from operating activities	792.8	281.0

18. Other Information

The information in this announcement is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory accounts of Northern Rock plc for the year ended 31 December 1999 have been filed with the Registrar of Companies in England and Wales. The auditors' report on these accounts was unqualified and did not include a statement under section 237(2) or (3) of the Act.

A summary of this report will appear as an advertisement in the Financial Times, The Times, The Daily Telegraph, The Scotsman and The Newcastle Journal on 1 February 2001.

This report is also available on the Northern Rock website www.northernrock.co.uk from 8.30am on 31 January 2001.

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 31 January 2001.

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19. Basis of Preparation

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

20. Dividends

Ex dividend date	25 April 2001
Record date	27 April 2001
Payment date	31 May 2001

21. Contacts

City Contacts

Bob Bennett
Group Finance Director
0191 279 4275
07855 257257 (mobile)

Dave Jones
Deputy Finance Director
0191 279 4474
07710 315 699 (mobile)

David Noble
Director of Institutional Relations
0191 279 4999
07931 694 208 (mobile)

Press Contacts

Adam Applegarth
Chief Executive (Designate)
0191 279 4525

Tony Armstrong
Director of Corporate Relations
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, 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.