

19 July 2001

NORTHERN ROCK GROUP INTERIM RESULTS

Northern Rock plc today issued its interim results for the six months ended 30 June 2001.

HIGHLIGHTS

- Record gross lending of £4.0 billion – an increase of 28.2%
- Record net lending of £2.3 billion – an increase of 16.3%
- Share of UK net mortgage lending of 7.3% – over twice opening share of stock
- Net retail funding of £443 million
- Further securitisation of £1.5 billion of residential mortgages
- Pre tax profits up by 14.1% to £139.6 million - a return on equity of 19.0%
- Total income margin increased to 1.97% - compared with 1.90% in the first half of 2000
- Ratio of costs to assets under management improved to 0.54%
- Ratio of costs to income improved to 31.0%
- Earnings per share of 21.8p - an increase of 10.1%
- Interim dividend per share of 5.7p – an increase of 11.8%

Adam J Applegarth, Chief Executive, said:

“In the first half of 2001 we achieved all of our targets. This resulted in falling unit costs underpinned by strong growth in our lending and profits, and consequently improved returns to shareholders. We remain on course to continue to deliver our growth strategy, which I believe is the best vehicle to enhance shareholder value.”

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Overview

The results for the first half of 2001 provide further confirmation that Northern Rock's strategy of growth remains firmly on track. All of our lending portfolios grew in accordance with our plans, returns remain stable and asset quality remains good. As a result we achieved strong growth in our profits and further improvement in our key performance indicators.

Northern Rock remains highly focused on its core activity of lending primarily to individuals. Our three funding arms - retail, non-retail and securitisation - all continue to be improved as does our investment in people and capacity, enabling us to achieve our lending targets.

Lending

During the first half of 2001 strong growth was achieved in all of our lending portfolios. Total gross lending was £4,010 million, an increase of 28.2% (30 June 2000 - £3,128 million) with net lending of £2,335 million, an increase of 16.3% (30 June 2000 - £2,008 million). The pipeline of new business at the end of the first half was £2.4 billion which will support another strong lending performance in the second half.

The residential lending market continued to be buoyant during the first half, supported by falling interest rates, house price inflation and robust consumer confidence. Competition has remained intense primarily from the large incumbent mortgage lenders. Much comment has been made about front book and back book pricing. We continue to offer customers a choice of product and pricing structures to suit their individual needs and the ability to switch to any of our existing products. Against this background we achieved strong gross residential lending of £3,125 million (30 June 2000 - £2,531 million) and net lending of £1,732 million (30 June 2000 - £1,524 million) which represents an estimated market share of 7.3%, over twice our opening share of stock of 3.5% and in line with stated targets. Our "share" of mortgage redemptions remains well below our natural share.

A consistent low risk profile has been maintained in relation to our residential lending. Almost three quarters of new lending in the first half of 2001 was at 90% LTV or below, two thirds of new borrowers had a credit history, only 12% of loans were over £150,000 and we have maintained a diversified geographical spread of lending.

Our credit bundling product "together" has continued to be popular accounting for almost 40% of new residential lending. This flexible mortgage product has recently been enhanced by the introduction of "together connections" allowing interest offset on customer savings and current account balances. Our other lifestyle product, Home Equity Release Mortgage (HERM) continues to grow, maintaining a share of new lending of 2%. Of our traditional residential lending, short term fixed rate products have remained the most popular at 37% of new lending.

Secured commercial lending continued to perform well, despite increasing competition, with gross lending of £210 million (30 June 2000 - £259 million).

Our unsecured lending portfolios comprising personal unsecured loans and credit cards grew as anticipated. Net lending in the first half was £480 million (30 June 2000 - £274 million) of which our "together" unsecured products accounted for £259 million (30 June 2000 - £106 million).

Arrears and Possessions

Residential mortgage arrears remain very low. At 30 June 2001 only 0.7% of all mortgage accounts were 3 months or more in arrears representing less than half the UK average at 31 December 2000. The "together" secured advances have continued to perform better than the mortgage book as a whole and in line with traditional mortgages of the same vintage. At 30 June 2001 only 274 properties were in possession compared with 288 at the end of December 2000.

Other loan portfolios continued to perform extremely well, with only 0.6% of our commercial loans and 1.5% of our personal unsecured loans more than three months in arrears. Arrears on the unsecured element of the "together" product are performing in line with the residential loan book ie better than stand alone unsecured loans.

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Distribution and Processing

The success of our Decision Call Centre, which provides intermediaries and direct customers with immediate loan approvals in principle and pre-populated application documentation, has been consolidated, with 71% of residential lending continuing to be sourced from intermediaries. Northern Rock Direct and branch based lending has also continued to grow retaining the mix of lending from these sources at 15% and 14% respectively. We will continue to invest in capacity, including an expansion of our head office by 17,000sq metres or 80% over the next two years, and systems, to ensure that we deliver the high level of service expected by our customers.

Investment in our e-commerce platform continues but at a pace that reflects realistic business opportunities and customer preferences. The level of unsecured lending sourced via e-commerce channels continues at around 40% of new business with new mortgage applications at 2% of new lending.

Retail Funding

Retail funding continues to be an important part of our well balanced funding franchise and supports 51% of our balance sheet assets. The net inflow of retail funds in the first half amounted to £443 million, including interest credited of £296 million, resulting in retail deposits of £12.5 billion at 30 June 2001. Fixed rate bonds and base rate tracker accounts continued to be the most attractive accounts for our customers. We now have 104,000 ISA customers with balances totalling £459 million.

Our Irish funding arm has also performed well and in the first half increased its balances by £75 million to £290 million. Our offshore operation in Guernsey now has over £2.0 billion balances on deposit.

Non-Retail Funding

Total new non-retail funding amounted to £1,283 million in the first half resulting in non-retail balances of £9.5 billion at 30 June 2001. Utilisation of our non-retail funding programmes, especially in Europe and the United States will continue in the second half.

Securitisation

Our securitisation programme continues to grow with diversification of its funding sources. It provides an alternative source of funding which underpins our growth strategy and enhances capital efficiency. In the first half we raised a further £1.5 billion, which for the first time included "together" secured mortgages, resulting in a total issuance to date of £4.2 billion. At 30 June 2001 securitised assets under management amounted to £3.7 billion, representing 18% of our total mortgage portfolio. We intend to be at the forefront of developments within the securitisation markets.

Assets

Assets under management, including securitised mortgage balances, at 30 June 2001 amounted to £28.0 billion, an increase of 12.8% compared with £24.9 billion at 31 December 2000. The balance sheet, including the securitised bonds (shown as a deduction from assets) has grown by 8.5% to £24.5 billion.

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Total Income and Margins

Total income has grown by 15.6% compared with the first half of 2000 to £231.0 million. Total income as a proportion of mean total assets has improved to 1.97% compared with 1.90% in the first half of 2000. In line with the rapid growth in securitised assets, the ratio of total income to mean total assets under management eased to 1.75% compared with 1.82% in the first half of 2000.

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. During 2000 we confirmed that interest margin and spread had begun to stabilise following a period of attrition. Further evidence is provided in the first half results for 2001 with interest margin of 1.27% and interest spread of 1.04% both of which are only 3 basis points lower than for the full year in 2000.

Expenses

Operating expenses, including investment in technology and improving customer service to support our growth in lending, increased by 13.8% compared with the first half of 2000 but significantly less than the growth in assets under management of 21.2% over the last twelve months. As a result the ratio of costs to assets under management fell to 0.54% from 0.57% in the equivalent period last year and our costs to income ratio fell to 31.0% from 31.5%. Our record of improving cost efficiency providing key competitive advantages continues.

The Northern Rock Foundation

Northern Rock donates 5% of its pre tax profit to The Northern Rock Foundation under a deed of covenant. Such donations are used to support community and charitable causes mainly, but not exclusively, in the North East of England. The donation from 2001 first half profits amounts to £7.0 million (30 June 2000 - £6.1 million).

Provisions

The total charge for provisions for bad and doubtful debts amounted to £11.6 million for the first half (30 June 2000 - £8.4 million) representing 0.12% of mean advances to customers (30 June 2000 - 0.10%). The increase in the total charge reflects the growth of personal unsecured lending offset by the beneficial impact of low residential arrears and positive house price inflation. In addition, it has been possible to release £1.8 million of general provisions against other secured loans reflecting the adequacy of existing provisions set aside for this portfolio.

Taxation

The effective tax rate for the first half was 30.5% compared with 31.0% for the same period in 2000.

Profits and EPS

Profit before tax for the first half amounted to £139.6 million, an increase over the equivalent 2000 figure of 14.1%. Profit after tax increased by 14.8% to £97.0 million, generating a return on equity of 19.0% compared with 19.3% in the first half of 2000.

Earnings per share grew by 10.1% to 21.8p in the first half of 2001.

Dividends

The proposed interim dividend is 5.7p per share payable on 31 October 2001 to shareholders on the register on 28 September 2001, an 11.8% increase over the 2000 interim dividend of 5.1p.

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Capital

At 30 June 2001 total capital amounted to £1.9 billion resulting in a total capital ratio of 14.2%. Tier 1 capital was £1,175 million and the Tier 1 ratio 8.7%. The comparable ratios at 30 June 2000 were 11.9% and 7.5% respectively.

During the first half of 2001 we took the opportunity to issue a further £100 million of Reserve Capital Instruments (RCIs) in addition to the £200 million issued last year. Any RCI balances in excess of those allowed to be classified as Tier 1 capital (a maximum of 15% of total Tier 1 capital) 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. In addition, our Upper Tier 2 capital was also enhanced by an issue of \$100 million.

We continue to monitor developments in relation to the Basel II proposals for capital although the proposed implementation date has been delayed a year to 2005. Sophisticated risk management allied to a focused low risk strategy should lead to lower levels of capital, but at this stage it is too early to determine the effect the proposals will have on Northern Rock.

Outlook

During the remainder of 2001, economic conditions are unlikely to change significantly and we expect to deliver further confirmation of the success of our strategy. Even if, as is likely, the UK economy then begins to soften we anticipate only a slight slowing in the mortgage market. Gross lending is expected to remain healthy supported by re-mortgaging which will enable us to achieve our lending targets. We are confident that the Northern Rock business model is well positioned to continue for the foreseeable future.

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FINANCIAL HIGHLIGHTS

	Six months to 30 June		Full Year	
	<u>2001</u>	<u>2000</u>	<u>2000</u>	
	<u>£m</u>	<u>£m</u>	<u>£m</u>	
Key Performance Figures				
Gross lending	4,010	3,128	6,362	
Net lending	2,335	2,008	3,621	
Net retail funding	443	552	963	
Securitisation issues	1,500	750	2,050	
Net non retail funding	1,283	1,247	1,140	
Key Ratios - Balance Sheet				
	<u>%</u>	<u>%</u>	<u>%</u>	
Growth in assets under management	12.8%	11.8%	20.1%	
Balance sheet growth	8.5%	8.8%	12.0%	
Total capital ratio	14.2%	11.9%	13.9%	
Tier 1 ratio	8.7%	7.5%	9.0%	
Key Ratios - Profit and Loss				
	<u>Reported & Underlying</u>	<u>Reported & Underlying</u>	<u>Reported</u>	<u>Underlying</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Total income : mean total assets	1.97%	1.90%	1.94%	1.94%
Total income : mean assets under management	1.75%	1.82%	1.82%	1.82%
Interest margin	1.27%	1.33%	1.30%	1.30%
Interest spread	1.04%	1.09%	1.07%	1.07%
Cost to income ratio	31.0%	31.5%	31.5%	31.5%
Cost to asset ratio	0.61%	0.60%	0.61%	0.61%
Cost to assets under management ratio	0.54%	0.57%	0.57%	0.57%
Provision charge as a % of mean advances to customers	0.12%	0.10%	0.10%	0.10%
Pre tax profit growth	14.1%	9.8%	16.3%	9.9%
Effective tax rate	30.5%	31.0%	27.2%	31.0%
Post tax profit growth	14.8%	11.5%	26.8%	10.7%
Post tax return on mean equity	19.0%	19.3%	19.9%	19.1%
Post tax return on mean assets	0.83%	0.80%	0.85%	0.82%
Post tax return on mean assets under management	0.73%	0.77%	0.80%	0.77%
Shareholder Information				
	<u>p/share</u>	<u>p/share</u>	<u>p/share</u>	<u>p/share</u>
Earnings per share	21.8p	19.8p	42.4p	40.6p
Fully diluted earnings per share	21.7p	19.8p	42.2p	40.5p
Dividend per share	5.7p	5.1p	15.5p	15.5p

Notes

2001 first half profit growth figures are calculated by reference to 2000 first half results.

Asset growth in 2001 represents the growth of total assets between 31 December 2000 and 30 June 2001.

Underlying profit and loss figures for the 2000 full year used in calculating the above ratios are stated before the effect of the provision for loss on disposal of care homes of £3.1 million and a tax credit of £10.4 million in respect of previously disallowed conversion costs. Half year figures for 2001 and 2000 do not require adjustment.

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

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FINANCIAL INFORMATION

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months to 30 June		Full Year
		2001	2000	2000
		(Unaudited)	(Unaudited)	(Audited)
	Note	£m	£m	£m
Interest receivable				
interest receivable and similar income arising from debt securities		100.0	103.1	212.9
other interest receivable and similar income		645.1	596.4	1,231.2
		<u>745.1</u>	<u>699.5</u>	<u>1,444.1</u>
Interest payable		(604.7)	(569.8)	(1,183.4)
Income from equity shares and variable yield securities		7.9	7.9	18.2
Net interest income	1	<u>148.3</u>	<u>137.6</u>	<u>278.9</u>
Fees and commissions receivable		76.3	60.5	119.4
Fees and commissions payable		(11.4)	(9.3)	(13.7)
Other operating income		17.8	11.0	29.6
Total non interest income	4	<u>82.7</u>	<u>62.2</u>	<u>135.3</u>
Total income	1	<u>231.0</u>	<u>199.8</u>	<u>414.2</u>
Administrative expenses				
operating		(67.2)	(58.2)	(122.4)
covenant to The Northern Rock Foundation		(7.0)	(6.1)	(12.5)
Total administrative expenses		(74.2)	(64.3)	(134.9)
Depreciation		(4.4)	(4.7)	(8.2)
Operating expenses	5	<u>(78.6)</u>	<u>(69.0)</u>	<u>(143.1)</u>
Provisions for bad and doubtful debts	6	(11.6)	(8.4)	(16.9)
Amounts written off fixed asset investments		(1.2)	-	(1.0)
Operating profit		<u>139.6</u>	<u>122.4</u>	<u>253.2</u>
Provision for loss on disposal of care homes		-	-	(3.1)
Profit on ordinary activities before tax		<u>139.6</u>	<u>122.4</u>	<u>250.1</u>
Tax on profit on ordinary activities		(42.6)	(37.9)	(68.1)
Profit on ordinary activities after tax		<u>97.0</u>	<u>84.5</u>	<u>182.0</u>
Appropriation attributable to non-equity interests		(5.9)	-	(3.2)
Profit attributable to ordinary shareholders		<u>91.1</u>	<u>84.5</u>	<u>178.8</u>
Dividends		(23.7)	(21.3)	(64.8)
Profit retained for the period		<u>67.4</u>	<u>63.2</u>	<u>114.0</u>
Earnings per share	8	21.8p	19.8p	42.4p
Underlying earnings per share	8	21.8p	19.8p	40.6p
Fully diluted earnings per share	8	21.7p	19.8p	42.2p
Underlying fully diluted earnings per share	8	21.7p	19.8p	40.5p

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CONSOLIDATED BALANCE SHEET

	<u>Note</u>	30 June 2001 (Unaudited) £m	30 June 2000 (Unaudited) £m	31 December 2000 (Audited) £m
Assets				
Cash and balances at central banks		7.3	11.0	13.7
Loans and advances to banks		868.3	798.7	788.4
Loans and advances to customers		19,153.2	17,453.2	18,019.2
Securitised advances		3,667.0	1,255.6	2,377.6
Less: non recourse finance		(3,558.7)	(1,231.0)	(2,306.0)
	10	19,261.5	17,477.8	18,090.8
Debt securities		3,147.9	2,877.8	2,776.9
Equity shares and other variable yield securities		332.4	157.7	279.0
Tangible fixed assets		106.1	91.5	97.0
Other assets		299.5	90.9	30.4
Prepayments and accrued income		441.6	390.0	468.0
Total assets		24,464.6	21,895.4	22,544.2
Liabilities				
Deposits by banks		1,370.5	956.8	874.5
Customer accounts	12	15,214.3	14,062.9	13,941.1
Debt securities in issue		5,370.7	4,906.3	5,414.3
Other liabilities		229.9	197.1	163.4
Accruals and deferred income		385.8	382.2	510.0
Subordinated liabilities		594.5	525.4	525.4
Shareholders' funds - equity		123.9	123.9	123.9
Called up share capital		6.8	6.8	6.8
Share premium account		7.3	7.3	7.3
Capital redemption reserve		860.9	726.7	777.5
Profit and loss account		998.9	864.7	915.5
Shareholders' funds - non-equity		300.0	-	200.0
Reserve capital instruments		1,298.9	864.7	1,115.5
Shareholders' funds		1,298.9	864.7	1,115.5
Total liabilities		24,464.6	21,895.4	22,544.2
Assets under management		28,023.3	23,126.4	24,850.2

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CONSOLIDATED CASHFLOW STATEMENT

	Six months to 30 June		Full Year
	<u>2001</u> (Unaudited) £m	<u>2000</u> (Unaudited) £m	<u>2000</u> (Audited) £m
Net cash inflow from operating activities (note 16)	242.8	1,051.0	792.8
Returns on investments and servicing of finance	(24.4)	(21.6)	(46.6)
Taxation	(23.5)	(23.4)	(85.3)
Capital expenditure and financial investment	(377.2)	(637.1)	(630.2)
Equity dividends paid	(43.4)	(38.2)	(59.5)
Net cash (outflow)/inflow before financing	<u>(225.7)</u>	<u>330.7</u>	<u>(28.8)</u>
Financing	185.0	(81.9)	118.1
(Decrease)/increase in cash	<u>(40.7)</u>	<u>248.8</u>	<u>89.3</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There have been no recognised gains or losses other than as reported in the profit and loss account on page 7.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30 June	30 June	31 December
	<u>2001</u> (Unaudited) £m	<u>2000</u> (Unaudited) £m	<u>2000</u> (Audited) £m
Opening shareholders' funds	1,115.5	883.5	883.5
Profit retained	67.4	63.2	114.0
Issue of reserve capital instruments (note 13)	100.0	-	200.0
Proceeds from sale of surplus unclaimed shares (note 14)	16.0	-	-
Repurchase of shares	-	(89.3)	(89.3)
Issue of ordinary shares	-	5.2	5.2
Reversal of accrued dividend on repurchased shares	-	2.1	2.1
Closing shareholders' funds	<u>1,298.9</u>	<u>864.7</u>	<u>1,115.5</u>

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NOTES TO THE INTERIM RESULTS

1. Total Income

	Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Net interest income	148.3	137.6	278.9
Other income	82.7	62.2	135.3
Total income	<u>231.0</u>	<u>199.8</u>	<u>414.2</u>
Mean total assets	23,504.4	21,010.1	21,334.5
Mean assets under management	26,436.8	21,908.5	22,770.4
Total income : mean total assets	1.97%	1.90%	1.94%
Total income : mean assets under management	1.75%	1.82%	1.82%

2. Interest Spread and Margin

	Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Interest receivable	862.2	746.9	1,572.8
Interest payable	(697.2)	(604.2)	(1,279.5)
Net interest income	<u>165.0</u>	<u>142.7</u>	<u>293.3</u>
Average balances			
Interest earning assets	25,991.5	21,487.8	22,588.2
Interest bearing liabilities	24,910.2	20,601.0	21,729.3
Interest margin	1.27%	1.33%	1.30%
Interest spread	1.04%	1.09%	1.07%

Interest receivable and payable represents amounts reported in the Profit and Loss account adjusted to include interest recorded by the special purpose securitisation companies (see note 11). Interest bearing assets and liabilities have similarly been adjusted for amounts included in the special purpose securitisation companies. Interest margin has been calculated by reference to average interest earning assets. Interest spread represents the difference between interest receivable as a % of average interest earning assets and interest payable as a % of average interest bearing liabilities. Average balances have been calculated on a monthly basis.

3. Deferred Mortgage Incentive Costs

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

	Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Balance Sheet:			
Opening balance	209.5	164.5	164.5
Additions	100.6	115.0	226.5
Amortisation	(91.1)	(88.1)	(181.5)
Closing balance	<u>219.0</u>	<u>191.4</u>	<u>209.5</u>
Profit and Loss Account:			
Amortisation	80.3	65.1	142.5
Current year immediate write off	10.8	23.0	39.0
	<u>91.1</u>	<u>88.1</u>	<u>181.5</u>

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4. Other Income

	Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	£m	£m	£m
Commissions	35.7	27.5	58.5
Fees (net of service charges)	26.3	21.7	41.7
Securitisation income	16.3	4.9	13.6
Subsidiaries and others	4.4	8.1	21.5
Total	<u>82.7</u>	<u>62.2</u>	<u>135.3</u>

5. Operating Expenses

	Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	£m	£m	£m
Staff costs	34.5	28.3	58.3
Other expenses	32.7	29.9	64.1
Depreciation	4.4	4.7	8.2
Total	<u>71.6</u>	<u>62.9</u>	<u>130.6</u>

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

	Full Time Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	Core business	2,660	2,375
Subsidiaries - - administration	-	15	12
- - direct	-	829	629
Total	<u>2,660</u>	<u>3,219</u>	<u>3,082</u>

	Part Time Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	Core business	593	557
Subsidiaries - direct	-	814	616
Total	<u>593</u>	<u>1,371</u>	<u>1,188</u>

Employees recorded in subsidiaries during 2000 relate to the care home business. This business has been disposed of with the employees transferring to the purchasers of the care homes.

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6. Provisions for Losses on Loans and Advances

	Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
Provisions charge:	£m	£m	£m
Specific			
Secured on residential property	2.5	1.8	5.2
Other secured	0.4	-	(0.8)
Unsecured	11.6	3.8	12.0
	<u>14.5</u>	<u>5.6</u>	<u>16.4</u>
General			
Secured on residential property	(0.3)	1.0	(1.5)
Other secured	(1.8)	0.2	2.8
Unsecured	(0.8)	1.6	(0.8)
	<u>(2.9)</u>	<u>2.8</u>	<u>0.5</u>
Total provision charge	<u>11.6</u>	<u>8.4</u>	<u>16.9</u>
% of mean advances to customers	0.12%	0.10%	0.10%
	<u>30 June</u>	<u>30 June</u>	<u>31 December</u>
Provisions balance:	2001	2000	2000
	£m	£m	£m
Specific			
Secured on residential property	6.0	7.5	6.5
Other secured	1.8	2.5	1.4
Unsecured	13.8	5.4	10.8
Total	<u>21.6</u>	<u>15.4</u>	<u>18.7</u>
General			
Secured on residential property	14.2	16.4	14.5
Other secured	7.5	7.4	9.3
Unsecured	3.7	6.9	4.6
Total	<u>25.4</u>	<u>30.7</u>	<u>28.4</u>
Total provision balance	<u>47.0</u>	<u>46.1</u>	<u>47.1</u>
% of period end advances to customers	0.25%	0.26%	0.26%

7. Residential Mortgage Arrears

	As at 30 June				As at 31 December	
	<u>2001</u>		<u>2000</u>		<u>2000</u>	
	Cases	% of Total Mortgages	Cases	% of Total Mortgages	Cases	% of Total Mortgages
3 - 6 months	1,711	0.4%	1,706	0.5%	1,601	0.4%
6 - 12 months	810	0.2%	757	0.2%	800	0.2%
Over 12 months	235	0.1%	340	0.1%	290	0.1%
Total	<u>2,756</u>	<u>0.7%</u>	<u>2,803</u>	<u>0.8%</u>	<u>2,691</u>	<u>0.7%</u>

NORTHERN ROCK GROUP INTERIM RESULTS

8. Earnings per Share

	Six months to 30 June		Full Year
	<u>2001</u> <u>£m</u>	<u>2000</u> <u>£m</u>	<u>2000</u> <u>£m</u>
Attributable profit (page 7)	91.1	84.5	178.8
Underlying attributable profit	91.1	84.5	171.4

2000 full year underlying attributable profit has been adjusted for the provision for loss on the disposal of care homes of £3.1 million together with the associated adjustment to the covenant to The Northern Rock Foundation of £0.1 million and a tax credit of £10.4 million in respect of previously disallowed conversion costs. The half year figures for 2001 and 2000 do not require adjustment.

Weighted average number of shares in issue	417.6m	426.2m	422.1m
Basic EPS	21.8p	19.8p	42.4p
Underlying EPS	21.8p	19.8p	40.6p

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	419.8m	427.0m	423.4m
Fully diluted EPS	21.7p	19.8p	42.2p
Underlying fully diluted EPS	21.7p	19.8p	40.5p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 2.2 million (30 June 2000: 0.8 million, 31 December 2000: 1.3 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

9. Mortgage Lending

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

	Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	%	%	%
Type of lending			
Fixed rate (long term)	10%	3%	3%
Fixed rate (short term)	37%	55%	48%
Discount	6%	5%	5%
Cashback	6%	9%	9%
Together	39%	26%	33%
HERM	2%	2%	2%
Type of customer			
First time buyer	34%	30%	30%
Next time buyer	38%	47%	45%
Remortgage	28%	23%	25%
Geographic spread			
North	18%	17%	18%
Scotland	9%	9%	9%
Midlands	29%	28%	28%
South	44%	46%	45%

10. Loans and Advances to Customers

	30 June <u>2001</u> £m	30 June <u>2000</u> £m	31 December <u>2000</u> £m
Advances secured on residential property	16,719.2	16,108.2	16,186.3
Advances secured on residential property (securitised)	3,667.0	1,255.6	2,377.6
Total advances secured on residential property	<u>20,386.2</u>	<u>17,363.8</u>	<u>18,563.9</u>
Other secured advances	937.4	758.2	813.8
Unsecured loans	1,496.6	586.8	1,019.1
	<u>22,820.2</u>	<u>18,708.8</u>	<u>20,396.8</u>
Less: non recourse finance	(3,558.7)	(1,231.0)	(2,306.0)
	<u>19,261.5</u>	<u>17,477.8</u>	<u>18,090.8</u>

11. Loans and Advances to Customers Subject to Securitisation

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

NORTHERN ROCK GROUP INTERIM RESULTS

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

Securitisation transactions entered into are as follows:

Securitisation company	Date of securitisation	Gross assets securitised £m	Subordinated loans made by Group £m
Granite Mortgages 99-1 plc	1 October 1999	600	10.8
Granite Mortgages 00-1 plc	1 March 2000	750	13.1
Granite Mortgages 00-2 plc	25 September 2000	1,300	25.8
Granite Mortgages 01-1 plc	26 March 2001	1,500	4.7

In addition to the subordinated loan made to Granite Mortgages 01-1 plc the Group has provided a first loss facility of £20 million by over collateralisation of the transaction.

Northern Rock plc does not own directly, or indirectly, any of the share capital of any of the above securitisation companies. The results of the Group incorporate the following in respect of the above securitisation companies:

	Six months to 30 June		Full Year
	<u>2001</u> £m	<u>2000</u> £m	<u>2000</u> £m
Interest receivable	109.2	39.5	110.5
Interest payable	(92.5)	(34.4)	(96.1)
Net interest receivable	<u>16.7</u>	<u>5.1</u>	<u>14.4</u>
Other income	0.8	0.2	0.6
Administrative and other expenses	(1.2)	(0.4)	(1.4)
Profit for the financial period	<u>16.3</u>	<u>4.9</u>	<u>13.6</u>

12. Analysis of Customer Accounts

	30 June <u>2001</u> £m	30 June <u>2000</u> £m	31 December <u>2000</u> £m
Branch accounts	1,455.2	1,589.2	1,552.0
Postal accounts	5,981.7	4,141.8	5,028.6
Offshore accounts	2,394.5	1,862.0	2,103.3
Telephone accounts	2,663.8	4,048.2	3,368.5
Total retail balances	<u>12,495.2</u>	<u>11,641.2</u>	<u>12,052.4</u>
Other customer accounts	2,719.1	2,421.7	1,888.7
	<u>15,214.3</u>	<u>14,062.9</u>	<u>13,941.1</u>

NORTHERN ROCK GROUP INTERIM RESULTS

13. Capital Structure

	30 June 2001 £m	30 June 2000 £m	31 December 2000 £m
Tier 1			
Share capital	123.9	123.9	123.9
Share premium account	6.8	6.8	6.8
Capital redemption reserve	7.3	7.3	7.3
Profit and loss account	860.9	726.7	777.5
Reserve capital instruments	176.3	-	161.6
Total Tier 1 capital	1,175.2	864.7	1,077.1
Upper Tier 2			
Perpetual subordinated debt	350.3	241.3	281.3
Reserve capital instruments	123.7	-	38.4
General provisions	25.4	30.7	28.4
Total Upper Tier 2 capital	499.4	272.0	348.1
Lower Tier 2			
Term subordinated debt	244.2	247.4	244.1
Total Tier 2 Capital	743.6	519.4	592.2
Deductions	(10.0)	(8.4)	(8.3)
Total capital	1,908.8	1,375.7	1,661.0
Risk weighted assets	13,468.4	11,515.7	11,986.2
Tier 1 ratio (%)	8.7%	7.5%	9.0%
Total capital (%)	14.2%	11.9%	13.9%

A further tranche of Reserve Capital Instruments was issued for a value of £100 million on 24 May 2001. The tranche is fungible with the issue of £200 million made on 21 September 2000, such that together they form a single series of instruments.

14. Sale of Unclaimed Shares

Ordinary shares were issued at conversion and held in trust to meet any claims from potential shareholders entitled to free shares who had failed to claim them before conversion. The remaining 3,778,500 of such shares were sold on 1 February 2001 at a price of 465p per share.

To the extent that it is now believed that the shares are surplus to expected further claims, the proceeds on sale, together with unclaimed dividends, have been transferred to the profit and loss account reserve. The proceeds on sale are non distributable. Where it is believed that valid claims may be made, the proceeds of sale and unclaimed dividends have been retained as a liability within 'Other liabilities'.

15. Dividends

Ex dividend date	26 September 2001
Record date	28 September 2001
Payment date	31 October 2001

NORTHERN ROCK GROUP INTERIM RESULTS

16. Reconciliation of Operating Profit to Net Operating Cash Inflows

	Six months to 30 June		Full Year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Operating profit	139.6	122.4	253.2
Decrease/(increase) in prepayments and accrued income	26.4	(63.9)	(141.9)
(Decrease)/increase in accruals and deferred income	(130.9)	(36.5)	90.1
Provision for bad and doubtful debts	11.6	8.4	16.9
Loans and advances written off net of recoveries	(11.7)	(5.2)	(12.7)
Depreciation and amortisation	4.4	4.7	8.2
Interest on subordinated liabilities	22.7	21.6	43.2
Other non-cash movements	(34.6)	(4.6)	(57.9)
Net cash inflow from trading activities	<u>27.5</u>	<u>46.9</u>	<u>199.1</u>
Net increase in loans and advances to banks and customers	(2,537.5)	(1,431.5)	(3,278.8)
Net increase in deposits by banks and customer accounts	1,678.7	1,499.2	1,322.2
Net increase in debt securities in issue	1,040.8	937.9	2,520.9
Net (increase)/decrease in other assets	(10.6)	(9.6)	20.5
Net increase in other liabilities	43.9	8.1	8.9
Net cash inflow from operating activities	<u>242.8</u>	<u>1,051.0</u>	<u>792.8</u>

17. Other Information

The information in this announcement is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory accounts of Northern Rock plc for the year ended 31 December 2000 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 20 July 2001. The report is also available on the Northern Rock website www.northernrock.com from 8.30am on 19 July 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 19 July 2001.

NORTHERN ROCK GROUP INTERIM RESULTS

18. Basis of Preparation

Accounting policies and methods remain unchanged from those used in the preparation of the 2000 annual accounts.

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 2001 which comprises the consolidated profit and loss account, consolidated balance sheet, consolidated cashflow statement, statement of total recognised gains and losses and reconciliation of movements in shareholders' funds. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

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

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2001.

PricewaterhouseCoopers
Chartered Accountants

Newcastle upon Tyne
19 July 2001

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This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to certain of the plans of Northern Rock, its current goals and expectations relating to its future financial condition and performance. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Northern Rock's actual future results may differ materially from the results expressed or implied in these forward-looking statements as a result of a variety of factors, including, 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.