

04 April 2005

**STOCK EXCHANGE ANNOUNCEMENT
NORTHERN ROCK PLC : TRADING STATEMENT
QUARTER 1 2005**

INTRODUCTION

Northern Rock informs the market of its continued strong trading performance - in line with its strategic intention of achieving annual growth in assets of 20% ($\pm 5\%$) and profit growth of 15% ($\pm 5\%$).

STRATEGY

Northern Rock's strategy remains unchanged. It is based on low cost operations, transparency and customer driven distribution to produce attractive products at competitive prices. This generates strong growth in high quality assets to provide low risk, attractive returns to shareholders. Our strategic target is to maintain Return on Equity in the 19-22% range.

ECONOMIC BACKGROUND AND MARKET OUTLOOK

While UK economic fundamentals remain sound, it is clear that the base rate rises seen in 2003 and 2004 are having an impact in slowing growth in consumer demand in the UK. This in turn has resulted in a slowdown in the housing market, both in terms of activity levels and house price inflation. Our expectation is for moderate GDP growth to continue in the UK, with unemployment remaining relatively low and interest rates peaking at or near to the current level.

Against this background, we believe the housing market will remain generally supported by low unemployment, good levels of affordability and sustained consumer preference for owner-occupation, reflecting structural supply side shortages. Adding a robust remortgage market, we expect this to result in good gross loan volumes but more muted net lending, given the slowing of the housing market.

As unemployment remains the key economic driver of home loan default, we expect mortgage arrears to remain relatively low.

Our expectation for the gross mortgage market is £260 billion in 2005, down from the record £291 billion seen in 2004, but still sufficient for Northern Rock, with its unique proposition in the market, to continue to achieve its lending targets.

LENDING

Northern Rock's practice of delivering fair and transparent products to all its customers ensures it retains a high proportion of its existing customer base. Combined with an effective platform for gross lending origination, and product pricing supported by its low and improving unit cost base, Northern Rock is confident of achieving its lending targets.

Lending has continued strongly into Q1 2005 with all three lending arms (residential, commercial secured and personal unsecured) performing well - but with stand-alone unsecured volumes a little lower than last year's run rate, as we continue to ration new lending by quality. Northern Rock starts Q2 with a strong total loan pipeline of agreed business of £5.0 billion - 7% higher than the same time in 2004 and only slightly down on the £5.1 billion held at the start of this year. The start of the year's pipeline was boosted by our strong lending around MDay. The residential lending pipeline is £4.5 billion - 6% higher than the same time last year. This contrasts with a 17% fall in gross awards for the industry as a whole compared with the same period last year. This means Northern Rock is continuing the strong gross market share performance seen in the second half of 2004.

Northern Rock's retention policy of openly allowing existing mortgage customers to transfer to any of our new customers' products also remains a key element of our growth strategy. A continuing strong performance means that the level of our residential redemptions remains a step below our natural share.

Strong origination, coupled with effective retention, means that Northern Rock's Q1 total net lending was 54% above the same period last year, which was Northern Rock's quietest quarter of 2004. Residential

net lending was 79% higher than the same period last year. Combining strong gross lending together with good retention of existing customers means that the high net lending market share seen in the second half of 2004 has also continued in 2005.

Northern Rock's new lending is dominated by home loans which represent 90% of total lending. Remortgaging continues to be an important part of this lending and is accounting for around 43% of new residential lending in 2005. The risk profile of new residential lending remains excellent, reflecting robust underwriting criteria, the high proportion of borrowers who have a proven payment track record and the resultant lower LTVs. Our "lifestyle" products - Together, HERM and Buy to Let - are accounting for around 30% of new business, with a similar mix as H204, ensuring that these balances are growing broadly in line with the total loan book.

Taking all aspects of our total current lending, the Northern Rock specific factors for future performance and given our expectation for total gross loan markets at this stage, Northern Rock reaffirms that it expects to achieve asset growth within its strategic range - that is to grow assets by 20% \pm 5%. Indeed, the figures shown above are consistent with Northern Rock achieving the upper half of this asset growth range.

ARREARS

The credit quality of all of our lending portfolios continues to be tightly monitored and controlled. In particular, it is encouraging to note in residential lending that our monthly behavioural scores have shown no deterioration i.e. no early warning signs of early arrears worsening. Residential arrears of more than three months duration remain below half the published industry average and arrears measured by value continue to run at lower levels than arrears measured by account. Both unsecured and commercial arrears remain consistently low, with unsecured arrears remaining significantly better than industry figures.

Northern Rock has no loan exposure outside the UK nor any exposure to unsecured commercial lending, leasing or credit cards. It takes no underwriting risk on any forms of insurance.

FUNDING

We continue to maintain a balanced funding platform comprising retail, wholesale, securitisation and our covered bond programme and funding volumes have been very strong in Q1 2005 across this platform.

2005's first tranche of £4.5 billion of residential mortgage-backed securities (RMBS) in January was notably over-subscribed and achieved at the then best ever all in cost of Libor +21bps - a demonstration of the quality of Northern Rock loans and the substantial appetite for this type of investment. We expect to complete a second RMBS issue in Q2.

We expect in 2005 to take further substantial funds from our wholesale programme which we continue to diversify and expand. From the Covered Bond programme we initiated in 2004, we are issuing a €1 billion to €1.5 billion additional tranche in early April.

Retail funding has and will remain an important part of Northern Rock's funding stock and flow. We continue to fund positively in 2005, carrying on the strong flavour of performance seen in H204.

COSTS

Northern Rock's strategy is to grow costs by less than income growth and by between 1/2 and 2/3 the rate of asset growth. Even after including additional full year costs of regulatory compliance in 2005, we expect to be around the mid-point of the cost:asset target range. As would be expected given the track record, costs remain firmly under control. As indicated previously, we expect the cost:income ratio to be broadly stable in 2005, before resuming its downward path.

INTERNATIONAL ACCOUNTING STANDARDS

We will provide a detailed analysis of our restated 2004 numbers (both full year and H1) at a presentation expected to be held on 13 May 2005. The guidance given in our 2004 Preliminary Results Announcement (26 Jan 2005) remains unchanged.

The strategic targets for asset growth and profit growth are not expected to change after the implementation of IFRS, although marking to market under IAS39 will introduce greater volatility of profits.

INCOME AND PROFITS

The essence of Northern Rock's strategy is to use improvements in unit costs to support more competitive product pricing.

Northern Rock's strategic target is to grow pre-tax profits (on a like-for-like basis) by 15% \pm 5% each year. Before restatement under IFRS, the range of pre-tax profit expectations for 2005, as provided by 19 of the major bank research analysts, is £390 million to £493 million, with a mean of £475 million, growth of 10%. At this early stage of the year, Northern Rock is comfortable with this consensus mean.

Growth in EPS and DPS will continue to be consistent with sustainable growth in attributable profits, which after the IFRS adjustments, should see the dividend payout ratio for 2005 increasing slightly.

COMMENT

Adam J Applegarth, Chief Executive, commented:

"We were pleased to hold the current pipeline of agreed new business at around the same level as at the start of the year's pipeline, which had been boosted by our strong performance in the aftermath of MDay. This is against a background of awards for the industry showing a 17% decline compared to a year ago."

"With this continued evidence of a slowdown in the UK housing and mortgage markets, our strong operating performance in the first quarter demonstrates the strength of our business model and our ability to deliver against our three key strategic targets - asset growth, profit growth and return on equity."

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Important Notice

This announcement should be read in conjunction with our announcement and the Annual Report and Accounts for the full year ended December 2004, copies of which are available from Northern Rock plc, Northern Rock House, Gosforth, Newcastle upon Tyne NE3 4PL or on our website at www.northernrock.co.uk

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 risks such as interest rates and exchange rates, delays in implementing proposals, unexpected difficulties with computer systems, unexpected changes to regulation, changes in customer preferences, competition and other factors.