STOCK EXCHANGE ANNOUNCEMENT
NORTHERN ROCK PLC : TRADING STATEMENT
3 MONTHS TO 31 MARCH 2007

INTRODUCTION

Northern Rock continues to trade strongly in Q1 2007 – in line with guidance given at the time of the 2006 Preliminary Results and with its strategic intention of achieving annual growth in assets of 20% (± 5%) and underlying attributable profit growth of 20% (± 5%).

STRATEGY

Northern Rock's consistent long term strategy is to generate high growth in quality assets to provide low risk, strong returns to shareholders. Underpinning this strategy is a commitment to efficiency, transparency and customer driven distribution which produces attractive products at competitive prices. Our strategic target is to maintain Return on Equity in the 20-25% range.

ECONOMIC BACKGROUND AND MARKET OUTLOOK

UK economic fundamentals remain sound. While indications remain for a less benign outlook, with gently rising unemployment, we expect conditions overall to remain supportive for the UK mortgage market.

There have been three rises in the Bank of England base rate in the last nine months, with the base rate now standing at 5.25%. Despite these rises the absolute level of interest rates remains low by historical standards and mortgage affordability for the average UK household remains good. In 2007, we expect house price inflation across the UK (excluding Central London) to be broadly in line with the rate of earnings growth.

We therefore expect to see similar levels of home moving transactions compared to 2006 with fundamental support provided by the lack of alternative tenure together with inelastic supply. We also anticipate continued liquidity in the remortgage market. This reflects households actively managing their budgets as they come to the end of existing deals, with an additional incentive to refinance following recent rises in interest rates. The Buy to Let market remains firm with structural support from migrant workers and the changes to the financing of higher education.

Combining the components of the UK mortgage market, our expectation is for the gross mortgage market in 2007 to show an increase from the £345bn in 2006, to over £360bn. Northern Rock remains confident of its ability to achieve its lending targets within this context.

LENDING

Our strong lending performance continued in the first quarter of 2007. During the first three months of 2007, total net lending was 34% higher than the same period last year. Going into the second quarter, Northern Rock's total lending pipeline stood at £6.7 billion; an increase of 16% over the same time last year.

Residential lending dominates Northern Rock's business. We continue to compete well in the gross mortgage market with our gross market share running above the level seen in 2006. Northern Rock's policy of genuinely offering existing mortgage customers the same products available to new customers, coupled with active promotion and focused retention resources, has contributed to the continuation of a good remortgage retention performance. Net residential lending during the first three months of the year was 42% higher than at the same point in 2006.

We continue to progress well towards delivering an enhanced homemover retention proposition, which will further enhance business growth going forward.

At 31 March 2007, Northern Rock's residential lending pipeline was £6.1 billion, 19% higher than the same time last year.

The risk profile of residential lending during the first quarter was consistent with that seen in 2006. The proportion of Together, Buy to Let and Lifetime products are at similar levels to H2 2006. Together continues to perform well.

Our project to introduce near-prime, sub-prime and self-certified loans to Lehman Brothers is launched today, 2 April. This will provide an income stream with no credit risk to Northern Rock and, importantly, open access to a wider audience of mortgage intermediaries.

Total unsecured lending continues to represent a small proportion of Northern Rock's overall loan book, at around 8% of lending assets, with 40% of this linked to a mortgage. We continue to target quality rather than volume in both our personal unsecured and commercial secured lending.

Northern Rock's lending performance during the first quarter of 2007, and the pipeline of business for the second quarter, is consistent with the Company achieving asset growth in the top half of the strategic range.

CREDIT QUALITY

Credit quality at Northern Rock remains tightly monitored and controlled. Our strong underwriting criteria, the high proportion of borrowers with a proven payment track record and the targeting of low risk sectors ensure credit quality remains robust.

All of our loan books are essentially unchanged in their arrears profile since the end of 2006. Our residential arrears (3 months plus) remain below half the industry average published by the Council of Mortgage Lenders, which at December 2006 was 0.89%.

We continue to see no deterioration in our forward looking behavioural credit scores, which gives advance warning of early arrears.

FUNDING

Despite recent world equity market volatility, funding volumes across our diversified funding platform remained strong and encouraging in the first quarter of 2007.

We continue to develop our retail funding arm, building on last year's performance, and are attracting further strong net inflows of retail savings. Our Danish operation was launched successfully in February and further broadens our retail savings franchise.

January saw the first of Northern Rock's Granite residential securitisation issues for 2007. As with previous transactions, the issue was heavily oversubscribed leading to the deal being upsized to £6.1 billion. This issue was achieved at an all in cost of Libor +17bps, comparable with deals in 2006, reflecting the strength and liquidity of this market and the appetite for Granite paper.

The first quarter of 2007 also saw further issuance under Northern Rock's €20 billion Covered Bond Programme as we further develop this funding stream. This included a €1.75 billion public issue and a £250 million private placement, both of which enhance investor diversification while providing longer dated funding. We expect to raise further funds through the Covered Bond Programme in 2007, potentially including a US Dollar denominated issue.

With regard to traditional wholesale funding, we raised $2.0 billion in early January under Northern Rock's US Medium Term Note Programme. Additionally a further €1 billion was raised from a 5 year Euro senior transaction, placed mostly with European investors in early March under Northern Rock's Euro Medium Term Note Programme which was heavily oversubscribed.

In summary, we continue to successfully raise funds globally from a diverse variety of sources.

COSTS

Costs at Northern Rock continue to be tightly controlled. As we noted at the 2006 Preliminary Results, we expect cost growth to be around the bottom of our strategic range of $^{1}/_{2}$ to $^{2}/_{3}$ of asset growth in 2007, thus improving the cost:asset ratio. With cost growth anticipated to be below income growth in 2007, we also expect to see the underlying cost:income ratio continue to improve.

CAPITAL

We continue to work towards final approval of our application to adopt the Retail Internal Ratings Based approach to capital under Basle II, which we aim to conclude in Q2 07. Given the low risk nature of our lending assets, we continue to expect to be a major beneficiary of Basle II. It remains our preference to repatriate initial and future excess capital from this exercise through increasing dividends.

In the light of Basle II capital requirements, the capital efficiency of holding different assets on the balance sheet is changing. As a result of this, Northern Rock is exploring options with regard to the sale of its commercial secured loan book. Further guidance on the implications of the implementation of Basle II, balance sheet management and capital releases will be given at the time of the Interim Results.

Asset disposals, such as the sale of our commercial secured loan book, will naturally distort capital needs. Surplus capital arising from any such one-off disposals will be repatriated through share buy-backs and would be expected to be EPS enhancing.

INCOME & PROFITS

As asset growth gently slows towards the middle of our strategic target of 20% (± 5%) over the next 2-3 years, we expect to see underlying attributable profit growth move towards and then above the mid-point of its target range of 20% (± 5%). This reflects the gradual unwinding of the initial income deferral caused by IFRS and also the fact that we have repriced our retail backbooks. With other income expected to grow in line with the type of lending with which it is associated, this should result in strong underlying income growth in 2007.

In 2007, we will see further movements within the Income Statement with the first preference share dividend being paid and accounted for in the second half of the year. This will show below the line "attributable profits to all shareholders". No further preference share capital issues are planned.

The consensus forecast range of post-tax underlying attributable profit (before the deduction of the preference share dividend) from 19 analysts for 2007 is £411m-£457m, with a mid-point of £434m, which would represent growth of 18% on 2006.

There was an unexpected Bank Base Rate rise in January and a resultant Base Rate – Libor gap, which remains noticeably higher than seen in 2006. Despite this, we are comfortable with the consensus mid-point. This is before the impact of any asset sales or capital repatriation.

COMMENT

Adam J Applegarth, Chief Executive, commented:

"We have started 2007 strongly, with lending performance well ahead of the comparable period last year and a strong pipeline of business set to deliver asset growth in the top half of our strategic range.

We are on track to deliver our Basle II programme in the first half of 2007 and this will enhance Northern Rock's strategic and competitive position in the markets in which we operate. This will, of course, change our balance sheet and capital management going forwards. It is our intention that excess capital will be repatriated through increasing dividends for on-going changes and through share buy-backs for one-off transactions.

Northern Rock's business model continues to produce levels of growth consistent with delivering against all of our strategic targets in 2007."

Further, more detailed, information on Northern Rock's 2007 trading performance will be produced at the Interim Results announcement on Wednesday, 25 July 2007.

City Contacts

Dave Jones
Group Finance Director
0191 279 4366

Richard Moorin
Investor Relations
0191 279 4093

Simon Hall
Investor Relations
0191 279 6090

Press Contacts

Brian Giles
Communications Director
0191 279 4676

John Watson
Corporate Communications
0191 279 5295

Ron Stout
Corporate Communications
0191 279 4921

James Murgatroyd
Finsbury Limited
020 7251 3801

Important Notice

This announcement should be read in conjunction with our announcement and the Annual Report and Accounts for the full year ended December 2006, 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.