

STOCK EXCHANGE ANNOUNCEMENT
NORTHERN ROCK PLC
STATEMENT ON MARKET CONDITIONS AND TRADING UPDATE
14 SEPTEMBER 2007

INTRODUCTION

In light of the continuing extreme conditions in global liquidity, Northern Rock plc (Northern Rock) takes the opportunity to update the market on its trading performance and outlook.

It has now become clear that the global credit and liquidity markets have not recovered in the early part of September, and that there continues to be a severe liquidity squeeze. In the UK, this is demonstrated by 3 Month Sterling Libor currently running at over 1% higher than Bank Base Rate. In these circumstances, Northern Rock has taken action to preserve liquidity and to maintain margins on its current loan book, while modifying its lending approach to avoid writing new business that is unprofitable in current conditions.

Although Northern Rock expects its new lending volumes to increase once the wholesale funding markets return to more normal volumes and prices, it must now plan on the basis that the wholesale funding markets will not return to historic levels in the short to medium term. In addition, the previously announced decision to dispose of more capital inefficient assets has been suspended but will be resumed once the pricing environment for such assets improves.

On the assumption that the current conditions remain until the end of 2007, there will clearly be an impact on Northern Rock's 2007 asset growth and, therefore, on profits. There will also be a consequential impact on its 2008 profits, which will be driven by developments in global liquidity conditions and the interest rate and credit risk environment, as well as the prospects for the UK mortgage market.

FUNDING

Global investor appetite in the medium and long term markets, for either senior unsecured or asset backed securities, is currently greatly reduced. Whilst we expect conditions will improve over the medium term, potential volumes and pricing levels for the remainder of 2007 are likely to remain less favourable than those which have been achieved during the last two years. While Northern Rock has continued to raise new funds, these have been mainly in the short term wholesale debt markets and the amounts raised have not allowed Northern Rock to refinance maturing liabilities as well as to write new business at previous levels. In view of the difficulties Northern Rock has had in accessing longer term funding and the mortgage securitisation markets, the Company has been using its cash and other liquid reserves to support the funding of its business. Northern Rock expects current market conditions to continue for some time.

In light of the above, Northern Rock has concluded that it is important to ensure that additional standby liquidity arrangements are available. Accordingly, Northern Rock has agreed with the Bank of England that it can raise such amounts of liquidity as may be necessary by either borrowing on a secured basis from the Bank of England or entering into repurchase facilities with the Bank of England. Such repurchase facilities would include securities that have prime residential mortgage assets as underlying collateral. The collateral that can be used under this "Repo" facility is similar in nature to the collateral currently utilised by many Eurozone banks with the ECB. This additional source of funding will enable Northern Rock to adapt its business model in line with the developing market conditions.

LENDING VOLUMES

In the first 8 months of the year, Northern Rock's total net lending was up 43% over the same period in 2006, with net residential lending up 55%. Given the current global liquidity squeeze, Northern Rock has slowed new lending volumes and we expect the effects of slower lending to be reflected in fourth quarter figures. We therefore expect that total asset growth for 2007 will be around 9%.

ASSET QUALITY

Northern Rock is a prime-only lender and credit quality on all its loan books remains strong. 3 months plus arrears in the residential book were 0.47% at the end of August (0.47% in June), still under half the industry average, and 1.21% (1.11% in June) on the standalone unsecured book. 3 months plus arrears on the Together secured book were 0.86% at the end of August (0.90% in June).

TREASURY INVESTMENTS

Northern Rock Treasury invests in high quality and well diversified assets. The statutory balance sheet in our interim results reported Treasury assets of £15.4 billion. At 31 August 2007 Treasury assets were rated 35% AAA, 31% AA, 25% A and 9% BBB. Our largest exposures were 24% to sovereigns, 46% to financial institutions and 22% to asset backed securities.

As announced on 20 August 2007, Northern Rock only has a £75 million direct exposure to the US sub-prime market which is all rated AAA, and a £200 million exposure to the US CDO market, within which there is indirect exposure to US sub-prime. Of the £275 million combined exposure, £193 million is rated AAA. Our combined exposure represents only 0.24% of total assets as at 30 June 2007.

We also have £325 million of investments in a number of Structured Investment Vehicles (SIVs) of which £305 million is bank sponsored. Included in the £200 million of CDOs referred to above is a modest exposure of £22 million of SIV Lites.

Northern Rock does not operate an off-balance sheet conduit, nor does it invest in asset backed commercial paper.

COSTS

Costs at Northern Rock continue to be tightly controlled, with cost growth expected at around 3% in 2007, which is lower than previously guided reflecting reduced business activity.

PROFIT AND OUTLOOK

Given the slowing of asset growth resulting from the credit and liquidity turmoil, Northern Rock now expects underlying profit before tax* for 2007 will be around £500 million – £540 million, compared to £588 million in 2006. Current consensus forecast for 2007 underlying profit before tax is £647 million, which includes around £37 million from further asset sales and swap gains beyond those already realised. Our expectation for 2007 assumes no further programmed asset disposals in 2007 and no further AFS gains or interest rate swap gains, other than those already announced and booked at the time of the H1 results. It also excludes any provisions that may

* Underlying profit before tax excludes the effects of fair value volatility and hedge ineffectiveness to present a more appropriate view of the ongoing underlying performance of the Company.

have to be taken through the profit and loss account in respect of the Treasury investments referred to above.

Northern Rock will continue its strategy of providing prime-only UK residential mortgages through its efficient and service driven business platform. The business model will, however, evolve in line with the developing market conditions.

The outlook for 2008 will depend on the speed of the recovery in global wholesale funding markets and where interest rate spreads stabilise in the global wholesale funding markets, as well as the evolution of the company's business model.

Northern Rock remains well capitalised as indicated in our interim results to 30 June 2007 and we expect our capital position to be strengthened further with slower asset growth. The interim dividend will be paid as planned on 26 October 2007.

Further information on Northern Rock's 2007 trading performance will be provided in a Preclose Trading Statement in early December 2007.

COMMENT

Adam J Applegarth, Chief Executive of Northern Rock, commented:

"We are seeing extreme conditions in global liquidity, which have impacted on world markets. As a result, we have taken prudent action to rein back our lending until markets normalise. Against that background it is inevitable, albeit disappointing, that our profits will be affected. We remain focused on prime lending in the UK mortgage market and our credit quality remains robust. The support of the Bank of England through this facility reflects a recognition that Northern Rock is solvent, exceeds its regulatory capital requirement and has a good quality loan book. In these extreme times we are pleased to have a high quality asset base and remain confident in the excellence of our strong customer franchise, our efficient business platform and our well-known brand."

Conference Call Details

A conference call for analysts and investors will take place at 9.30 a.m. today (14 September). To access the call, please call 0845 245 5000 (International +44 1452 562 716) and ask for the Northern Rock conference call, ID 17098562. The call will also be broadcast via www.northernrock.co.uk.

A replay of the conference call will be available on the website, or by calling 0845 245 5205 (International +44 1452 550 000) and keying in the pass number 17098562#.

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Important Notice

This announcement should be read in conjunction with our announcement for the half year ended June 2007, 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.