

OFFERING CIRCULAR

northern rock

Northern Rock plc

(incorporated with limited liability in England and Wales under the Companies Act 1985, registered number 3273685)

£200,000,000

8.399% Step-up Callable Perpetual Reserve Capital Instruments

Issue Price: 100.00 per cent.

The £200,000,000 8.399% Step-up Callable Perpetual Reserve Capital Instruments (the "RCIs") of Northern Rock plc ("Northern Rock" or the "Issuer") will bear interest from (and including) 21 September 2000 to (but excluding) 21 September 2015 at a rate of 8.399 per cent. per annum, payable annually in arrear on 21 September in each year starting 21 September 2001. Thereafter, the RCIs will bear interest at a rate, reset every five years, of 4.725 per cent. per annum above the gross redemption yield on a specified United Kingdom government security, payable annually in arrear on 21 September in each year, all as more particularly described in "Terms and Conditions of the RCIs – 5. Coupon Payments". Payments (which term, as defined herein, does not include principal) may be deferred as described in "Terms and Conditions of the RCIs – 4. Deferrals", but the Issuer may not declare or pay dividends on any ordinary or preference shares whilst any Payments are deferred.

The RCIs are redeemable on 21 September 2015 or on each Coupon Payment Date (as defined herein) thereafter. In addition, upon the occurrence of certain tax or regulatory events, the RCIs may be exchanged or their terms varied so that they become Upper Tier 2 Securities (as defined herein), provided that if such tax or regulatory events do or would persist after such exchange or variation or certain other provisions apply, the RCIs may be redeemed at any time, as more particularly described in "Terms and Conditions of the RCIs – 7. Exchange, Variation or Redemption".

Under existing Financial Services Authority ("FSA") requirements, the Issuer may not redeem or purchase any RCIs unless the FSA has given its prior consent.

The RCIs will be unsecured securities of the Issuer and will be subordinated to the claims of Senior Creditors (as defined herein) in that no payment of principal or interest in respect of the RCIs may be made unless the Issuer is solvent and is able to make such payment and remain solvent immediately thereafter. In the event of the winding-up of the Issuer, the RCI Holders (as defined herein) will, for the purpose only of calculating the amounts payable in respect of each RCI, be treated as if they were the holders of preference shares ranking *pari passu* with the holders of that class or classes of preference shares (if any) from time to time issued by the Issuer which have a preferential right to a return of assets in the winding-up over and so rank ahead of the holders of all other classes of the Issuer's issued shares on the day immediately prior to the commencement of the winding-up. See "Terms and Conditions of the RCIs – 3. Winding-up".

For a description of certain matters that prospective investors should consider, see "Investment Considerations".

Application has been made to list the RCIs on the Luxembourg Stock Exchange.

The RCIs have been assigned a BBB+ rating by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and an a2 rating by Moody's Investors Service, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Barclays Capital

Dated: 18 September 2000

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

In connection with the issue and sale of the RCIs, no person is authorised to give any information or to make any representation not contained in this document and if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Subscriber (as defined in "Subscription and Sale" below) or the Trustee.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Subscriber that any recipient of this Offering Circular should purchase any of the RCIs. Each investor contemplating purchasing RCIs should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates.

The distribution of this document and the offering or sale of the RCIs in certain jurisdictions may be restricted by law. The Issuer and the Subscriber do not represent that this document may be lawfully distributed, or that the RCIs may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Subscriber which would permit a public offering of the RCIs or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no RCIs may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or the RCIs may come must inform themselves about, and observe, any such restrictions. See "Subscription and Sale" below for a description, *inter alia*, of certain restrictions on offers, sales and deliveries of the RCIs in the United States or to US persons. Neither the delivery of this Offering Circular nor any sale hereunder shall create, under any circumstances, any implication that there has been no change in the affairs of the Issuer since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

In connection with this issue, Barclays Bank PLC may over-allot or effect transactions which stabilise or maintain the market price of the RCIs at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

The RCIs have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and comprise RCIs in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, the RCIs may not be sold or delivered, directly or indirectly, within the United States or to U.S. persons.

In this document all references to "£" are to pounds sterling.

TABLE OF CONTENTS

	Page
SUMMARY	3
INVESTMENT CONSIDERATIONS	6
TERMS AND CONDITIONS OF THE RCIs	8
USE OF PROCEEDS	24
SUMMARY OF PROVISIONS RELATING TO THE RCIs WHILE IN GLOBAL FORM	25
NORTHERN ROCK plc	27
CAPITALISATION OF NORTHERN ROCK plc	31
BOARD OF DIRECTORS	32
FINANCIAL STATEMENTS	34
UNITED KINGDOM TAXATION	56
SUBSCRIPTION AND SALE	60
GENERAL INFORMATION	62

INCORPORATION BY REFERENCE

The Annual Report and Accounts of the Issuer for the years ended 31 December 1999 and 1998 (prepared on a consolidated basis) and the interim financial statements for the six months ended 30 June 1999 (prepared on a consolidated basis) are incorporated into this Offering Circular by reference. Copies may be obtained at the specified office of each of the Paying Agents as set out in "General Information" below.

SUMMARY

The following summary refers to certain provisions of the Terms and Conditions of the RCIs and the Trust Deed and insofar as it refers to the Terms and Conditions of the RCIs is qualified by the more detailed information contained elsewhere in this document. Defined terms used herein have the meaning given to them in "Terms and Conditions of the RCIs".

Issuer	Northern Rock plc
Trustee	The Bank of New York
Issue size	£200,000,000
Redemption	The RCIs are perpetual securities and have no maturity date. However, the RCIs are redeemable in whole but not in part at the option of the Issuer, subject to the prior approval of the FSA and to the Solvency Condition having been met within the previous six months at their principal amount together with any Outstanding Payments on 21 September 2015 or any Coupon Payment Date thereafter.
Interest	The RCIs bear interest at a rate of 8.399 per cent. per annum to (but excluding) 21 September 2015 and thereafter at 4.725 per cent. per annum above the gross redemption yield on a specified United Kingdom government Gilt, reset every five years.
Coupon Payment Dates	Subject as described below, Coupon Payments will be payable on 21 September in each year from (and including) 21 September 2001.
Subordination	The rights and claims of the RCI Holders and the Couponholders are subordinated to the claims of Senior Creditors. Upon any winding-up of the Issuer, the holder of each RCI will rank <i>pari passu</i> with the holders of the most senior class or classes of preference shares (if any) of the Issuer then in issue and in priority to all other shareholders but will rank junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding up of the Issuer is determined.
Exceptional deferral of payments	If the Issuer determines, on the 20th business day prior to the date on which any Payment (such term does not include principal) would, in the absence of deferral in accordance with Condition 4, be due and payable that it is, or payment of the relevant Payment will result in the Issuer being, in non-compliance with applicable Capital Regulations, the Issuer may, subject to the dividend restriction described below, elect to defer such Payment. Such exceptionally deferred Payment must, unless the Issuer elects to defer such Payment pursuant to its general right to defer referred to below, be satisfied on the Coupon Payment Date next following the 19th business day after the Issuer determines that it no longer is, and payment of such Payment will not result in it being, in non-compliance with such applicable Capital Regulations. No interest will accrue on an Exceptionally Deferred Coupon Payment.
General deferral of Payments	Subject to the dividend restriction described below, the Issuer may elect to defer any Payment (which term does not include principal) on the RCIs for any period of time. However, the deferred payment will bear interest at 2 per cent. per annum above the then current rate of interest on the RCIs.
Dividend restriction during period of deferral	If the Issuer defers a Payment for any reason as described above then, while any Payment is so deferred, it may not declare or pay a dividend on any of its ordinary and preference shares.

Alternative coupon satisfaction mechanism	Investors will always receive payments made in respect of RCIs in cash. However, if the Issuer defers a Payment it must, or if and to the extent the Issuer so elects at any time it may, satisfy its obligation to make any Payment (which term does not include principal) to RCI Holders by issuing its Ordinary Shares to the Trustee or its agent which, when sold, will provide a cash amount which the Principal Paying Agent, on behalf of the Trustee, will pay to the RCI Holders in respect of the relevant Payment. The Calculation Agent will calculate in advance the number of Ordinary Shares to be issued in order to enable the Trustee or its agent to raise the full amount of money due on the relevant payment date to RCI Holders.
Insufficiency	The Issuer is required to keep available for issue enough Ordinary Shares as it reasonably considers would be required to satisfy from time to time the next Coupon Payment using the alternative coupon satisfaction mechanism described above.
Market Disruption Event	If, in the opinion of the Issuer, a Market Disruption Event exists on or after the 15th business day preceding any date upon which the Issuer is due to satisfy a payment using the alternative coupon satisfaction mechanism, the payment to RCI Holders may be deferred until the Market Disruption Event no longer exists.
Suspension	If, following any take-over offer or any reorganisation, restructuring or scheme of arrangement, the Issuer or any subsequent New Owner ceases to be the ultimate holding company of the Northern Rock group of companies, any changes to the documentation relating to the RCIs determined by an independent investment bank to be appropriate in order to preserve substantially the economic effect, for the RCI Holders, of a holding of the RCIs, prior to the Suspension will be made by the Issuer and the Trustee and pending such changes the Issuer will be unable to satisfy Payments using the alternative coupon satisfaction mechanism. If the investment bank is unable to determine appropriate amendments, as notified to the Issuer and the Trustee, the RCIs will (subject to the prior consent of the FSA) be redeemed at the Suspension Redemption Price.
Additional amounts	The Issuer will pay additional amounts to RCI Holders to gross up payments upon the imposition of UK withholding tax, subject to customary exceptions.
Exchange, variation or redemption for taxation reasons	Upon the occurrence of certain changes in the treatment of the RCIs for taxation purposes, the Issuer may, subject to the prior consent of the FSA, exchange the RCIs for, or vary the terms of the RCIs so that they become, Upper Tier 2 Securities or, if such change in tax treatment also affects or would affect the Upper Tier 2 Securities or certain other provisions apply and provided that the Solvency Condition has been met within the previous six months, redeem all, but not some only, of the RCIs at their principal amount together with accrued interest and all other amounts outstanding thereon.

Exchange, variation or redemption for regulatory reasons	The RCIs will qualify as Tier 1 Capital for the purposes of the FSA's capital adequacy regulations. If at any time the RCIs cease to qualify as Tier 1 Capital, the Issuer may, subject to the prior consent of the FSA, exchange the RCIs for, or vary the terms of the RCIs so that they become, Upper Tier 2 Securities or, if such exchanged or varied securities do or would not qualify as Upper Tier 2 Capital or certain other provisions apply and provided that the Solvency Condition has been met within the previous six months, redeem all, but not some only, of the RCIs at their principal amount together with accrued interest and all other amounts outstanding thereon.
Remedy for non-payment	The sole remedy against the Issuer available to the Trustee or any RCI Holder for recovery of amounts owing in respect of any Payment or principal in respect of the RCIs will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up.
Form	Bearer. The RCIs will be represented initially by the Temporary Global RCI, which will be deposited outside the United States with a common depository for Clearstream, Luxembourg and Euroclear on or about 21 September 2000. The Temporary Global RCI will be exchangeable for interests in the Permanent Global RCI on or after a date which is expected to be 1 November 2000 upon certification as to non-US beneficial ownership as required by US Treasury regulations and as described in the Temporary Global RCI. Save in limited circumstances, RCIs in definitive bearer form with coupons and a talon attached on issue will not be issued in exchange for interests in the Permanent Global RCI.
Listing	Luxembourg.
Governing law	English.
Rating	The RCIs have been assigned a BBB+ rating by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and an a2 rating by Moody's Investors Service, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider the following information in conjunction with the other information contained in this document.

Deferral

The Issuer may elect to defer any Payment (such term does not include principal) on the RCIs for any period of time, as more particularly described in "Terms and Conditions of the RCIs – 4. Deferrals". Any such deferred payment will, unless it is an exceptional deferral as described under " – 4(a) Exceptional Deferral of Coupon Payments – " bear interest at 2 per cent. above the rate applicable to the RCIs and during the period of such deferral the Issuer may not declare or pay a dividend on any of its ordinary shares or preference shares.

Perpetual securities

The Issuer is under no obligation to redeem the RCIs at any time (save in the particular circumstances referred to in "Terms and Conditions of the RCIs – 8. Payments – (d) Suspension") and the RCI Holders have no right to call for their redemption.

Redemption risk

Upon the occurrence of certain specified tax and regulatory events, the RCIs may be exchanged or their terms varied so that they become Upper Tier 2 Securities or, if such specified tax and regulatory event applies or would apply to the Upper Tier 2 Securities or certain other provisions apply, the RCIs may, subject as provided in "Terms and Conditions of the RCIs – 7. Exchange, Variation or Redemption – (c) Exchange, Variation or Redemption due to Taxation and – (d) Exchange, Variation or Redemption for Regulatory Purposes", be redeemed at their principal amount together with any Outstanding Payments.

No limitation on issuing debt

There is no restriction on the amount of debt which the Issuer may issue which ranks senior to the RCIs or on the amount of securities which the Issuer may issue which ranks *pari passu* with the RCIs. The issue of any such debt or securities may reduce the amount recoverable by RCI Holders on a winding-up of the Issuer or may increase the likelihood of a deferral of Payments under the RCIs.

Availability of shares

If the Issuer is to make a payment using the alternative coupon payment mechanism and insufficient ordinary shares in the Issuer are available, then the Issuer's payment obligation shall be suspended to the extent of such insufficiency and, except in the case of Exceptionally Deferred Coupon Payments, shall bear interest at 2 per cent. above the rate applicable to the RCIs, until such time as sufficient shares are available to satisfy all or part of the suspended payment obligation, as more particularly described in "Terms and Conditions of the RCIs – 6. Alternative Coupon Satisfaction Mechanism – (d) Insufficiency".

Market Disruption Event

If, following a decision by the Issuer to satisfy a payment using the alternative coupon payment mechanism, a Market Disruption Event exists in the opinion of the Issuer, the payment to RCI Holders may be deferred until the cessation of such market disruption, as more particularly described in "Terms and Conditions of the RCIs – 6. Alternative Coupon Satisfaction Mechanism – (e) Market Disruption". Any such deferred payments shall bear interest at the rate applicable to the RCIs if the Market Disruption Event continues for 14 days or more.

Restricted remedy for non-payment

In accordance with FSA requirements for subordinated capital, the sole remedy against the Issuer available to the Trustee or any RCI Holder for recovery of amounts owing in respect of any Payment or principal in respect of the RCIs will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up.

Absence of prior public markets

The RCIs constitute a new issue of securities by Northern Rock. Prior to this issue, there will have been no public market for the RCIs. Although application has been made for the RCIs to be listed on the Luxembourg Stock Exchange, there can be no assurance that an active public market for the RCIs will develop and, if such a market were to develop, the Subscriber is under no obligation to maintain such a market. The liquidity and the market prices for the RCIs can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities.

TERMS AND CONDITIONS OF THE RCIs

The following, subject to alteration, are the terms and conditions of the RCIs which will be endorsed on each RCI in definitive form (if issued).

The RCIs are constituted by the Trust Deed. The issue of the RCIs was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 25 July 2000 and 14 September 2000. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement are available for inspection during normal business hours by the RCI Holders and the Couponholders at the principal office of the Trustee, being at 21 September 2000 at 101 Barclay Street, New York, NY 10286, United States of America, and at the specified office of each of the Paying Agents. The RCI Holders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Calculation Agency Agreement applicable to them.

1 Form, Denomination and Title

(a) Form and Denomination

The RCIs are serially numbered and in bearer form in the Authorised Denominations each with Coupons and one Talon attached on issue.

(b) Title

Title to the RCIs, Coupons and Talons will pass by delivery. The bearer of any RCI will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the RCI Holder.

2 Status and Subordination

(a) Status

The RCIs constitute direct, unsecured, subordinated securities of the Issuer and rank *pari passu* without any preference among themselves.

(b) Subordination

- (i) Condition of Payment:** The rights and claims of the RCI Holders and the Couponholders are subordinated to the claims of Senior Creditors, in that payments in respect of the RCIs (including the issue of Ordinary Shares in accordance with Condition 6) are conditional upon the Issuer being solvent at the time of payment (or issuing such Ordinary Shares) by the Issuer and in that no principal or Payments shall be due and payable in respect of the RCIs (including the issue of Ordinary Shares in accordance with Condition 6) except to the extent that the Issuer could make such payment (or make such issue of Ordinary Shares) and still be solvent immediately thereafter. In these Terms and Conditions the Issuer shall be considered to be solvent if (i) it is able to pay its debts to Senior Creditors as they fall due and (ii) the Auditors have reported to the Trustee within the previous six months that the Solvency Condition has been satisfied.
- (ii) Winding-Up Claims:** Amounts representing any payments of principal or interest in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable ("Winding-Up Claims") will be payable by the Issuer in a winding-up of the Issuer as provided in Condition 3 and on any redemption pursuant to Condition 7(b), 7(c), 7(d) or 8(d). A Winding-Up Claim shall not bear interest.
- (iii) Set-off:** Subject to applicable law, no RCI Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the RCIs or the Coupons and each RCI Holder and Couponholder shall, by virtue of his holding of any RCI or Coupon, be deemed to have waived all such rights of set-off, compensation or retention.

For the avoidance of doubt, if the Issuer would otherwise not be solvent for the purposes of the above Condition 2(b), any sums which would otherwise be payable in respect of the RCIs will be available to meet the losses of the Issuer.

3 Winding-up

If at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except in any such case a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer (as defined in the Trust Deed), the terms of which reconstruction, amalgamation or substitution have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed)), there shall be payable by the Issuer in respect of each RCI and Coupon (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the holder of such RCI and Coupon if, on the day prior to the commencement of the winding-up and thereafter, such RCI Holder were the holder of one of a class of preference shares in the capital of the Issuer having an equal right to a return of assets in the winding up to and so ranking *pari passu* with the holders of that class or classes of preference shares (if any) from time to time issued by the Issuer which have a preferential right to a return of assets in the winding-up over and so rank ahead of the holders of all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Junior Subordinated Debt in a winding-up of the Issuer is determined and senior to all other classes of issued shares (save as aforesaid) for the time being in the capital of the Issuer on the assumption that the amount that such RCI Holder was entitled to receive in respect of such preference share on a return of assets in such winding-up, were an amount equal to the principal amount of the relevant RCI and any other Payments which are Outstanding together with, to the extent not otherwise included within the foregoing, the pro-rata share of any Winding-Up Claims attributable to the RCI.

4 Deferrals

The Issuer must make each Coupon Payment on the relevant Coupon Payment Date subject to and in accordance with these Terms and Conditions. However, the Issuer may defer a Coupon Payment and any other Payment in the following circumstances:

(a) Exceptional Deferral of Payments

- (i) If on the 20th business day preceding the date on which any Payment would, in the absence of deferral in accordance with this Condition 4, be due and payable, the Exceptional Deferral Condition is satisfied, any such Payment may (subject to Condition 6) be deferred by the Issuer giving notice to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to such date. If following the deferral of a Payment by the Issuer under this Condition 4(a)(i) the Exceptional Deferral Condition ceases to be satisfied on the 20th business day preceding a Coupon Payment Date, then the Issuer shall satisfy such Payment on the Relevant Deferred Coupon Payment Date having given, not less than 16 business days prior to the Relevant Deferred Coupon Payment Date, notice to the Trustee, the RCI Holders and the Calculation Agent that it will satisfy such Payment on such date unless (i) it has previously elected to satisfy such Payment earlier (provided that, at the time of satisfying such payment, the Exceptional Deferral Condition fails to be satisfied) by delivering a notice to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to the relevant Exceptionally Deferred Coupon Payment Date or (ii) it elects to defer such Payment under Condition 4(b).
- (ii) If any Payment is deferred pursuant to this Condition 4(a) then: (1) the Issuer may not declare or pay a dividend on any ordinary share or preference share of the Issuer from the date of the first-mentioned notice in Condition 4(a)(i) until such time as that Exceptionally Deferred Coupon Payment is satisfied; and (2) no amount will be payable by way of interest on any such deferred Payment, save as provided in Condition 6(e). Any such deferred Payment shall be satisfied only in accordance with Condition 6.

(b) Election to defer Payment

- (i) The Issuer may in respect of any Payment which would, in the absence of deferral in accordance with this Condition 4, be due and payable, by giving a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and the RCI Holders not less than 16 business days prior to the relevant due date, defer such Payment. The Issuer may then satisfy any such Payment at any time pursuant to Condition 6 (and only pursuant to Condition 6) upon delivery of a notice to the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to the relevant Coupon Satisfaction Date.
- (ii) If the Issuer has given such first-mentioned notice then: (1) the Issuer may not declare or pay a dividend on any ordinary share or preference share of the Issuer from the date of such notice until such time as that Deferred Coupon Payment (and any other Deferred Coupon Payment or Accrued Coupon Payment) is satisfied; and (2) each Payment which the Issuer defers pursuant to the giving of such a notice shall bear interest at a rate equal to the aggregate of the rate determined in accordance with Condition 5(b) and 2 per cent. per annum from (and including) the date of deferral of such Payment pursuant to this Condition 4(b) to (but excluding) the relevant Coupon Satisfaction Date.

5 Coupon Payments

(a) Coupon Payment Dates

The RCIs bear interest at the Coupon Rate from (and including) the Issue Date and such interest will (subject to Conditions 2(b)(i), 4(a), 4(b), 6(d), 6(e) and 8(d)) be payable on each Coupon Payment Date. Each RCI will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest in accordance with this Condition (both before and after judgment) as provided in the Trust Deed.

(b) Coupon Rate

- (i) The Coupon Rate in respect of the period from (and including) the Issue Date to (but excluding) the First Reset Date is 8.399 per cent. per annum.
- (ii) The Coupon Rate in respect of each Reset Period shall be the aggregate of 4.725 per cent. per annum and the Five Year Benchmark Gilt Rate in respect of such Reset Period (as determined by the Calculation Agent).

(c) Determination and Publication of Coupon Rate and Coupon Amounts

The Principal Paying Agent will, upon the determination of each Coupon Rate pursuant to Condition 5(b)(ii), calculate the Coupon Amount in respect of each Authorised Denomination and cause the Coupon Rate and each Coupon Amount payable in respect of a Coupon Period to be notified to the Trustee, the Issuer, the Calculation Agent and the Luxembourg Stock Exchange and to be notified to the RCI Holders as soon as possible after their determination but in no event later than the fourth business day thereafter.

Each Coupon Amount in respect of any Coupon Period shall be calculated by applying the Coupon Rate to the principal amount of the RCI of the relevant Authorised Denomination and, in respect of any period of less than a complete Coupon Period, such Coupon Amount shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(d) Determination or Calculation by Trustee

If the Principal Paying Agent or, as the case may be, the Calculation Agent, does not at any time for any reason so determine the Coupon Rate or calculate each Coupon Amount in accordance with Conditions 5(b)(ii) and 5(c), the Trustee or an agent on its behalf shall do so and such determination or calculation shall be deemed to have been made by the Principal Paying Agent or, as the case may be, the Calculation Agent. In doing so, the Trustee or such agent shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the

extent that, in its opinion, it or such agent can do so, and in all other respects it or such agent shall do so in such manner as it shall deem fair and reasonable in all the circumstances. All determinations or calculations made or obtained for the purposes of the provisions of this Condition 5(d) by the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the Paying Agents and all RCI Holders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the RCI Holders or the Couponholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6 Alternative Coupon Satisfaction Mechanism

(a) *Alternative Coupon Satisfaction Mechanism*

The Issuer may elect to satisfy any Payment in full or in part through the issue of Ordinary Shares to the Trustee in accordance with this Condition 6, in which case it shall notify the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 business days prior to the relevant Coupon Payment Date. In the absence of or save to the extent of such election and issue, subject to Conditions 4(a) and 4(b), Payments must be satisfied in accordance with Condition 8(a), provided that if under Condition 4(a) an Exceptional Deferral Condition is satisfied the relevant Payment must be deferred unless the prior consent of the Financial Services Authority is obtained for the making of such Payment.

(b) *Issue of shares*

If any Payment is to be satisfied in full or in part through the issue of Ordinary Shares to the Trustee then, subject to Conditions 6(d) and 6(e):

- (i) by close of business on or before the 7th business day prior to the relevant Coupon Payment Date, Coupon Satisfaction Date or Exceptionally Deferred Coupon Payment Date the Issuer will issue to the Trustee (or, if so agreed between the Issuer and the Trustee, to an agent of the Trustee) such number of Ordinary Shares (the "Payment Ordinary Shares") as, in the determination of the Calculation Agent, have a market value of not less than the relevant Payment to be satisfied in accordance with this Condition 6; and
- (ii) the Trustee will use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case not later than by close of business on the 6th business day prior to the date on which the relevant Payment is due and the Calculation Agent has agreed to use reasonable endeavours to procure purchasers for such Payment Ordinary Shares. If necessary, the Calculation Agent has further agreed to exchange, as agent of the Trustee, the proceeds of such sale into sterling at prevailing market exchange rates and deliver such exchanged proceeds to, or hold such exchanged proceeds to the order of, the Trustee who shall pay or procure that its agent pays such proceeds as it holds in respect of the relevant Payment on its due date to the Principal Paying Agent for application in accordance with Condition 6(c).

(c) *Issue satisfies Payment*

Where the Issuer either elects or is required to make a Payment hereunder by issuing Ordinary Shares to the Trustee and issues such shares, such issue shall satisfy the relevant Payment or, as the case may be, in the circumstances referred to in (d) below, the relevant part of such Payment if made in accordance with this Condition 6. The proceeds of sale of Ordinary Shares shall be paid by the Principal Paying Agent to the RCI Holders in respect of the relevant Payment.

(d) *Insufficiency*

If the Issuer is to satisfy all or part of a Payment in accordance with this Condition 6 and the Issuer does not, on the date when the number of such Ordinary Shares required to be issued is determined in accordance with this Condition 6, have sufficient number of Ordinary Shares available for issue, then the Issuer shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the RCI Holders that all or part, as the case may be, of the relevant Payment

cannot be so satisfied due to the events described in this paragraph, in which case the same shall be satisfied following the date of the next annual general meeting or extraordinary general meeting of shareholders of the Issuer at which a resolution is passed authorising a sufficient number of Ordinary Shares to satisfy all or such part of the relevant Payment provided that if the number of Ordinary Shares authorised to be issued at any such meeting is insufficient to satisfy all or such part of the relevant Payment then those Ordinary Shares so issued shall be applied by the Issuer in part satisfaction of all or such part of the relevant Payment. Following the passage of any such resolution, the Issuer shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the RCI Holders of the date upon which the relevant Payment or, as the case may be, the part thereof is to be made in accordance herewith on not less than 16 business days' notice. The relevant Payment or, as the case may be, the part thereof which is not so satisfied shall, unless it is an Exceptionally Deferred Coupon Payment, continue to accrue interest at a rate determined in accordance with Condition 4(b)(ii) from (and including) the date on which Payment would otherwise have been due to (but excluding) the date on which such Payment or part thereof is satisfied. If, in the case of an insufficiency of Ordinary Shares, the Issuer does not hold an annual general meeting within 6 months of giving the above first-mentioned notice, at which a resolution to make a sufficient number of Ordinary Shares so available is proposed, the Trustee shall by notice require the issuer to convene an extraordinary general meeting at which such a resolution shall be proposed on a date falling within 10 weeks of such notice from the Trustee. In the event that any such resolution proposed at any such annual general meeting or extraordinary general meeting is rejected, such resolution will then be proposed at the next following annual general meeting of the Issuer and, if at such annual general meeting such proposal is rejected again, from the date of such second rejection the Issuer may not declare or pay a dividend on any ordinary share or preference share of the Issuer until such time as such resolution has been passed by the shareholders of the Issuer.

(e) *Market Disruption*

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event on or after the 15th business day preceding any date upon which the Issuer is due to make or satisfy a Payment in accordance with this Condition 6, then the Issuer may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and the RCI Holders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant Payment may be deferred until such time as the Market Disruption Event no longer exists.

Any such deferred Payment will be satisfied as soon as practicable following such time as the Market Disruption Event no longer exists. Interest shall not accrue on such deferred Payment unless, as a consequence of the existence of a Market Disruption Event, the Issuer does not make the relevant Payment for a period of 14 days or more after the due date therefor, in which case interest shall accrue on such deferred Payment from (and including) the date on which the relevant Payment was due to be made to (but excluding) the date on which such Payment is made. Any such interest shall accrue at a rate determined in accordance with Condition 5 and shall be satisfied only in accordance with Condition 6 and as soon as reasonably practicable after the relevant deferred Payment is made. No liability shall attach to the Trustee or its agents if, as a result of a Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with the provisions of Condition 6(b).

7 *Exchange, Variation or Redemption*

(a) *No Fixed Redemption Date*

The RCIs are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 12) only have the right to repay them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).

Any redemption or purchase of the RCIs is subject to the prior consent of the Financial Services Authority.

(b) Issuer's Call Option

Provided that the Solvency Condition is met within the previous six months, the Issuer may, by giving not less than 30 nor more than 60 days' notice to the RCI Holders in accordance with Condition 16 and to the Principal Paying Agent and the Trustee, which notice shall be irrevocable, elect to redeem all, but not some only, of the RCIs on the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any Outstanding Payments.

(c) Exchange, Variation or Redemption due to Taxation

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that, on the next due date for a Coupon Payment:

- (i) the Issuer would be unable to make such payment without being required to pay additional amounts as provided in Condition 11; or
- (ii) payments of amounts in respect of interest on the RCIs including, for the avoidance of doubt, the issue of Ordinary Shares pursuant to Condition 6, may be treated as "distributions" within the meaning of Section 832(1) of the Income and Corporation Taxes Act 1988 (or such other Section and/or Act as may from time to time supersede or replace Section 832(1) of the Income and Corporation Taxes Act 1988 for the purposes of such definition) and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate; or
- (iii) as a result of any change in or proposed change in, or amendment to or proposed amendment to, the laws of the United Kingdom or any political subdivision or authority thereof having power to tax, or any change in or proposed change in the application of official or generally published interpretation of such laws, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such law or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the RCIs, which change or amendment becomes, or would become, effective, or in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by Act of Parliament or made by Statutory Instrument, on or after 18 September 2000, there is more than an insubstantial risk that the Issuer will not obtain substantially full relief for the purposes of United Kingdom corporation tax for the next following payment of interest including, for the avoidance of doubt, where the payment of interest is to be satisfied by the issue of Ordinary Shares pursuant to Condition 6 or, as a result of the RCIs being in issue, the Issuer may be unable to claim or surrender losses as group relief, and such requirement or circumstance cannot be avoided by the Issuer taking such measures as it (acting in good faith) deems appropriate,

then the Issuer may (subject to the prior consent of the Financial Services Authority but without any requirement for the consent or approval of the RCI Holders or, save as specified below, the Trustee), having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the RCI Holders (which notice shall be irrevocable) exchange the RCIs for, or vary the terms of the RCIs so that they become, Upper Tier 2 Securities on terms which preserve any existing rights under these Terms and Conditions to Outstanding Payments.

If: (a) the consent of the Financial Services Authority is not given or, (b) the RCIs, as so exchanged or varied for or into Upper Tier 2 Securities, do not (or would not, if so exchanged or varied) qualify as Upper Tier 2 Capital or, (c) any of the conditions listed in paragraphs (i) to (iii) above apply or continue to apply to Upper Tier 2 Securities for or into which the RCIs have been exchanged or varied or, (d) if the Issuer shows to the satisfaction of the Trustee that any of the conditions listed in paragraphs (i) to (iii) above would apply if such exchange or variation were to take place, the Issuer may, provided that the Solvency Condition is met within the previous six months, having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the RCI Holders (which notice shall be irrevocable), redeem, in

accordance with these Terms and Conditions, at any time all, but not some only, of the RCl's or any such Upper Tier 2 Securities for or into which they have been exchanged or varied at their principal amount together with any Outstanding Payments. The Trustee shall use its reasonable endeavours to assist the Issuer in the exchange or variation of the RCl's for or into Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate or assist in any such exchange or variation if, in its opinion, the terms of the securities into which the RCl's are to be exchanged or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the RCl's as provided above. Prior to the publication of any notice of exchange, variation or redemption pursuant to this Condition 7(c) the Issuer shall deliver to the Trustee a certificate signed by a Director of the Issuer stating that the relevant requirement or circumstance referred to in paragraphs (i), (ii) or (iii) above is satisfied or would be satisfied were such exchange or variation to take place and the Trustee shall accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above in which event it shall be conclusive and binding on the RCl Holders. Upon expiry of such notice the Issuer shall either redeem, vary or exchange the RCl's, as the case may be.

(d) *Exchange, Variation or Redemption for Regulatory Purposes*

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that the Financial Services Authority has determined that the RCl's no longer qualify as Tier 1 Capital then the Issuer may (subject to the prior consent of the Financial Services Authority but without any requirement for the consent or approval of the RCl Holders or, save as specified below, the Trustee), having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the RCl Holders (which notice shall be irrevocable) exchange the RCl's for, or vary the terms of the RCl's so that they become, Upper Tier 2 Securities on terms which preserve any existing rights under these Terms and Conditions to Outstanding Payments.

If: (a) the consent of the Financial Services Authority is not given or, (b) the RCl's, as so exchanged or varied for or into Upper Tier 2 Securities, do not (or would not, if so exchanged or varied) qualify as Upper Tier 2 Capital or, (c) any of the conditions listed in paragraphs (c)(i), (ii) and (iii) above apply, or would apply, to such Upper Tier 2 Securities, the Issuer may, provided that the Solvency Condition is met within the previous six months, having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the RCl Holders (which notice shall be irrevocable), redeem, in accordance with these Terms and Conditions, at any time all, but not some only, of the RCl's or any such Upper Tier 2 Securities for or into which they have been exchanged or varied at their principal amount together with any Outstanding Payments. The Trustee shall use its reasonable endeavours to assist the Issuer in the exchange or variation of the RCl's for or into Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate or assist in any such exchange or variation if, in its opinion, the terms of the securities into which the RCl's are to be exchanged or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the RCl's as provided above. Upon the expiry of such notice the Issuer shall either redeem, vary or exchange the RCl's, as the case may be.

(e) *Purchases*

The Issuer or any Subsidiary may (subject to the prior consent of the Financial Services Authority and provided the Auditors have reported to the Trustee within the previous six months that the Solvency Condition is met) at any time purchase RCl's in any manner and at any price. In each case purchases will be made together with all unmatured Coupons and Talons (if any) appertaining thereto.

(f) *Cancellation*

All RCl's so redeemed by the Issuer and any unmatured Coupons and Talons (if any) appertaining thereto will be cancelled and may not be reissued or resold. RCl's purchased by the Issuer or any

Subsidiary may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

8 Payments

(a) Method of Payment

- (i) Payments of principal and Coupon Amounts will be made by or on behalf of the Issuer against presentation and surrender of RCIs or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relative RCI. Such payments will be made, at the option of the payee by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.
- (ii) Upon the due date for redemption of any RCI, any unexchanged Talon relating to such RCI (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such RCI (whether or not attached) shall also become void and no payment shall be made in respect of them. If any RCI is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any RCI, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 12).
- (iv) The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain (aa) a Paying Agent having a specified office outside the United Kingdom and (bb) for so long as the RCIs are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, a Paying Agent having a specified office in Luxembourg. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the RCI Holders in accordance with Condition 16.

(b) Payments subject to Fiscal Laws

Without prejudice to the terms of Condition 11, all payments made in accordance with these Terms and Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the RCI Holders in respect of such payments.

(c) Payments on Payment Business Days

An RCI or a Coupon may only be presented for payment on a day which is a Payment Business Day. No further interest or other payment will be made as a consequence of the day on which the relevant RCI or Coupon may be presented for payment under this paragraph falling after the due date.

(d) Suspension

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement, the Issuer or any subsequent New Owner (as defined below) ceases to be the ultimate holding company of the Northern Rock group of companies, then the Issuer shall as soon as practicable give notice to the Trustee, the Calculation Agent and the RCI Holders, whereupon the Issuer's right to satisfy a Payment by the method contemplated by Condition 6 shall be suspended (such event being a "Suspension"). In such event an independent investment bank appointed by the Issuer (at the Issuer's expense) and approved by the Trustee shall determine, subject to the requirements that (i) the Issuer shall not be obliged

to reduce its net assets, (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the RCIs for banking capital adequacy purposes without the prior consent of the Financial Services Authority, and (iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on it without its consent, what amendments (if any) to these Terms and Conditions, the Trust Deed and any other relevant documents are appropriate in order to preserve substantially the economic effect, for the RCI Holders, of a holding of the RCIs prior to the Suspension. Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank, the Trustee and the Issuer shall, pursuant to the terms of the Trust Deed and without the consent of the RCI Holders or Couponholders, effect any necessary consequential changes to these Terms and Conditions and the Trust Deed and any other relevant documents, whereupon the Issuer's right to satisfy a Payment by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall so notify the Issuer, the New Owner, the Trustee, the Principal Paying Agent and the Calculation Agent and each RCI shall (subject to the prior consent of the Financial Services Authority) be redeemed by the Issuer, following notice to the RCI Holders by the Issuer of such redemption as soon as practicable after receipt of the consent of the Financial Services Authority, at the Suspension Redemption Price, together with any Outstanding Payments, not later than the 60th business day following the giving of such notice by the Issuer to the RCI Holders. Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected through the issue of Ordinary Shares, such Ordinary Shares to be transferred to the New Owner in consideration for which the New Owner issues and transfers its ordinary shares (or share capital of an equivalent class) in accordance, mutatis mutandis, with Condition 6(b), (c), (d) and (e) (with references to the Payment Ordinary Shares being construed as references to such ordinary shares or equivalent share capital of the New Owner which, when sold, provide a net cash amount (converted into sterling if necessary) of not less than the redemption amount so payable by the Issuer).

9 Pre-emption

The Issuer shall, from time to time, keep available for issue such number of Ordinary Shares as it reasonably considers would be required to be issued in order to satisfy the requirement to issue Payment Ordinary Shares in accordance with Condition 6 in connection with the next Coupon Payment.

No damages will be payable for breach of this covenant but, in the event of breach by the Issuer of this Condition 9, the Trustee may require the Issuer to put before the next general meeting of the shareholders of the Issuer a resolution to remedy the breach.

The Trustee shall not be obliged to monitor compliance by the Issuer with this Condition and shall be entitled to assume, unless it has actual knowledge to be contrary, that the Issuer is complying with its obligations under this Condition.

10 Non-Payment when Due

Notwithstanding any of the provisions below in this Condition 10, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Pursuant to Condition 2(b) no principal or Payment will be due if the Solvency Condition is not satisfied, or if the Issuer would not otherwise be solvent. Also, in the case of any Payment, such Payment will not be due if the Issuer has elected to defer that Payment pursuant to Condition 4(a) or 4(b) or if the circumstances referred to in any of Conditions 6(d), 6(e) or 8(d) then apply. The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.

- (a) If the Issuer shall not make payment in respect of the RCIs (in the case of payment of principal) for a period of 7 days or more after the due date for the same or (in the case of any Coupon Amount, Deferred Coupon Payment, Exceptionally Deferred Coupon Payment or Accrued Coupon Payment or any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall) shall not make payment for a period of 14 days or more after the date on which such payment is due, the

Issuer shall be deemed to be in default under the Trust Deed, the RCIs and the Coupons and the Trustee may, notwithstanding the provisions of paragraph (b) of this Condition 10, institute proceedings for the winding-up of the Issuer.

- (b) Subject as provided in Condition 9, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the RCIs or the Coupons (other than for the payment of any principal or satisfaction of any Payments in respect of the RCIs or the Coupons, including any payment under Clause 2.6 of the Trust Deed) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in paragraph (a) or (b) above against the Issuer to enforce the terms of the Trust Deed, the RCIs or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution of the RCI Holders or in writing by the holders of at least one-fifth in principal amount of the RCIs then outstanding and (ii) it shall have been indemnified to its satisfaction.
- (d) No RCI Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the RCI Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No remedy against the Issuer shall be available to the Trustee or any RCI Holder or Couponholder (i) for the recovery of amounts owing in respect of the RCIs or the Coupons (including any payment under Clause 2.6 of the Trust Deed), other than the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up and (ii) for the breach of any other term under the Trust Deed, the RCIs or the Coupons, other than as provided in paragraph (b) above.

11 Taxation

All payments by the Issuer of principal, Coupon Amounts, Deferred Coupon Payments, Exceptionally Deferred Coupon Payments, Accrued Coupon Payments and Winding-Up Claims in respect of the RCIs will be made without withholding of or deduction for, or on any account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer will pay such additional amounts as may be necessary in order that the net amounts receivable by RCI Holders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the RCIs or, as the case may be, Coupons in the absence of such withholding or deduction, except that no such additional amounts shall be payable in relation to any payment with respect to any RCI or Coupon presented for payment:

- (a) by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such RCI or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such RCI or Coupon; or
- (b) unless it is proved to the satisfaction of the Paying Agent to whom the same is presented that the holder would not be able to avoid such withholding or deduction by satisfying any statutory requirements and/or by making a declaration of non-residence or other similar claim for exemption but, in either case, fails to do so; or
- (c) in the United Kingdom; or
- (d) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Terms and Conditions to principal, Coupon Amounts, Deferred Coupon Payments, Exceptionally Deferred Coupon Payments and/or Accrued Coupon Payments shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

12 Prescription

RCIs and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of RCIs and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition or Condition 8(a)(ii) or any Talon which would be void pursuant to Condition 8(a)(ii).

13 Meetings of RCI Holders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of RCI Holders to consider any matter affecting their interests including the modification by Extraordinary Resolution (as defined in the Trust Deed) of these Terms and Conditions or other provisions of the Trust Deed.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the RCIs for the time being outstanding, or at any adjourned such meeting one or more persons being or representing RCI Holders whatever the principal amount of the RCIs so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions (including, *inter alia*, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and due dates for payment of principal or Coupon Payments in respect of the RCIs and reducing or cancelling the principal amount of any RCI or the Coupon Rate) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the RCIs for the time being outstanding.

An Extraordinary Resolution passed at any meeting of RCI Holders will be binding on all RCI Holders, whether or not they are present at the meeting, and on all Couponholders.

Notwithstanding any other provision of these Terms and Conditions, the Trustee may agree, without the consent of the RCI Holders or Couponholders, to any modification (subject to certain exceptions) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any other provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the RCI Holders or to any modification which is of a formal, minor or technical nature or to correct a manifest error or to comply with the mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

No modification to these Terms and Conditions or any other provisions of the Trust Deed shall become effective unless the prior consent thereto of the Financial Services Authority shall have been obtained.

Subject to the prior consent of the Financial Services Authority and as provided in the Trust Deed, the Trustee may agree with the Issuer, without the consent of the RCI Holders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in these Terms and Conditions of any holding company of the Issuer, any subsidiary of such holding company, any Subsidiary, any successor in business of the Issuer or any subsidiary of any successor in business of the Issuer (the "Substituted Issuer") in place of the Issuer (or any previous Substituted Issuer under this Condition 13) as a new issuing party under the Trust Deed, the RCIs and the Coupons. In connection with any proposed substitution as aforesaid and in connection with the exercise of its functions, the Trustee shall have regard to the interests of the RCI Holders as a class and the Trustee shall not have regard to the consequences of such substitution for individual RCI Holders or Couponholders resulting from in particular their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

In connection with any substitution or such exercise as aforesaid, no RCI Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substituted Issuer or the Trustee or any other person, any

indemnification or payment in respect of any tax consequence of any such substitution or exercise upon any individual RCI Holders or Couponholders except to the extent already provided in Condition 11 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all RCI Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the RCI Holders in accordance with Condition 16 as soon as practicable thereafter.

14 Replacement of the RCIs, Coupons and Talons

Should any RCI, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 16) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced RCIs, Coupons or Talons must be surrendered before any replacement RCIs, Coupons or Talons will be issued.

15 The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any Subsidiary without accounting for any profit resulting therefrom. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by the Auditors whether or not the same are subject to any limitation on the liability of the Auditors and whether by reference to a monetary cap or otherwise.

16 Notices

Notices to RCI Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and for so long as the RCIs are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the RCI Holders in accordance with this Condition.

17 Further Issues

The Issuer shall be at liberty from time to time without the consent of the RCI Holders or the Couponholders to create and issue further RCIs ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further RCIs) and so that the same shall be consolidated and form a single series with the outstanding RCIs. Any such RCIs shall be constituted by a deed supplemental to the Trust Deed.

18 Agents

The Issuer will procure that there shall at all times be a Calculation Agent and a Principal Paying Agent so long as any RCI is outstanding. If either the Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Terms and Conditions or the Calculation Agency Agreement or the Agency Agreement, as appropriate, the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank acceptable to the Trustee to act as such in its place. Neither the termination of the appointment of a Calculation Agent or the Principal Paying Agent nor the resignation of either will be effective without a successor having been appointed.

All calculations and determinations made by the Calculation Agent or the Principal Paying Agent in relation to the RCIs shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the RCI Holders and the Couponholders.

None of the Issuer, the Trustee and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation by the Calculation Agent.

19 Governing Law

The Trust Deed, the RCIs, the Coupons and the Talons are governed by, and shall be construed in accordance with, the laws of England.

20 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the RCIs under the Contracts (Rights of Third Parties) Act 1999.

21 Definitions

In these Terms and Conditions:

"Accrued Coupon Payment" means, as at any time, where these Terms and Conditions provide that interest shall continue to accrue after a Coupon Payment Date in respect of an RCI, the amount of interest accrued thereon in accordance with Conditions 4(b), 5, 6(d) and 6(e);

"Agency Agreement" means the agency agreement dated 21 September 2000 between the Issuer, the Trustee and the Paying Agents, relating to the RCIs under which each Paying Agent agrees to perform the duties required of it under these Terms and Conditions;

"Assets" means the unconsolidated gross assets of the Issuer, all as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent assets and for subsequent events, all in such manner as the directors, the Auditors or the liquidator (as the case may be) may determine;

"Auditors" means PricewaterhouseCoopers as statutory auditors to the Issuer or such other auditor to the Issuer as may be appointed from time to time;

"Authorised Denominations" means £1,000, £10,000 and £100,000;

"Benchmark Gilt" means, in respect of a Reset Period, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, with the advice of the Reference Dealers, may determine to be appropriate;

"business day" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open for general business in London;

"Calculation Agency Agreement" means the calculation agency agreement dated 21 September 2000 between the Issuer, the Trustee and the Calculation Agent, relating to the RCIs under which the Calculation Agent agrees to perform the duties required of it under these Terms and Conditions;

"Calculation Agent" means Cazenove & Co., as calculation agent in relation to the RCIs, or its successor or successors for the time being appointed under the Calculation Agency Agreement;

"Capital Regulations" means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary bank supervisory authority with respect to the Issuer;

"Coupon" means an interest coupon relating to an RCI and includes, where the context so permits, a Talon;

"Coupon Amount" means (i) in respect of a Coupon, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Coupon Period in accordance with Condition 5 and (ii) for the purposes of Conditions 7(c), 7(d) and 8(d) any interest accrued from and including the preceding Coupon Payment Date (or, if none, the Issue Date) to but excluding the due date for redemption if not a Coupon Payment Date;

"Coupon Determination Date" means, in relation to each Reset Date, the fifth business day prior to such Reset Date;

“Coupon Payment” means, in respect of a Coupon Payment Date, the aggregate Coupon Amounts for the Coupon Period ending on such Coupon Payment Date;

“Coupon Payment Date” means 21 September in each year, starting 21 September 2001;

“Coupon Period” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Coupon Payment Date and each successive period beginning on (and including) a Coupon Payment Date and ending on (but excluding) the next succeeding Coupon Payment Date;

“Couponholder” means the bearer of any Coupon;

“Coupon Rate” has the meaning given to it in Condition 5(b);

“Coupon Satisfaction Date” means the date on which the Issuer has resolved to satisfy a Deferred Coupon Payment, as notified by the Issuer to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent in accordance with Condition 4(b);

“dealing day” means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt or the Reference Bond (as the case may be) is at the relevant time listed) is ordinarily open for the trading of securities;

“Deferred Coupon Payment” means any Payment, or part thereof, which, pursuant to Condition 4(b), the Issuer has elected to defer and which has not been satisfied;

the **“Exceptional Deferral Condition”** will be satisfied if, in the determination of the Issuer, on the relevant date, the Issuer is, or payment of the relevant Payment will result in the Issuer being, in non-compliance with the applicable Capital Regulations;

“Exceptionally Deferred Coupon Payment” means a Payment, or part thereof, which has been deferred in accordance with Condition 4(a) and not satisfied;

“Exceptionally Deferred Coupon Payment Date” means the date on which the Issuer has resolved to satisfy an Exceptionally Deferred Coupon Payment, as notified by the Issuer to the Trustee, the RCI Holders, the Principal Paying Agent and the Calculation Agent in accordance with Condition 4(a);

“First Reset Date” means 21 September 2015;

“Five Year Benchmark Gilt Rate” means, in respect of a Reset Period, the gross redemption yield (as calculated by the Calculation Agent on the basis set out by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries Vol. 105, part 1, 1978, page 18 (as amended from time to time)) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such Benchmark Gilt quoted by the Reference Dealers at 3.00p.m. (London time) on the relevant Coupon Determination Date on a dealing basis for settlement on the next following dealing day in London;

“holding company” has the meaning ascribed to it under Section 736 of the Companies Act 1985;

“interest” shall, where appropriate, include Coupon Amounts, Deferred Coupon Payments, Exceptionally Deferred Coupon Payments and Accrued Coupon Payments;

“Issue Date” means 21 September 2000, being the date of initial issue of the RCIs;

“Issuer” means Northern Rock plc;

“Junior Subordinated Debt” means the Issuer’s outstanding 8 per cent. Undated Subordinated Notes and Fixed Rate Step-up Undated Subordinated Notes each as constituted by a Trust Deed dated 15 March 1994 (as modified and/or restated from time to time) made between the Issuer and The Law Debenture Trust Corporation plc, as trustee, the Issuer’s outstanding 12⁵/₈ per cent. Perpetual Subordinated Notes constituted by the Trust Deed dated 30 September 1997 made between the Issuer and The Law Debenture Trust Corporation p.l.c., as trustee, and any other obligations of the Issuer which are expressed to rank *pari passu* with the aforesaid obligations;

"Liabilities" means the unconsolidated gross liabilities of the Issuer, all as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events, all in such manner as the directors, the Auditors or the liquidator (as the case may be) may determine;

"London Stock Exchange" means the London Stock Exchange plc;

"Market Disruption Event" means (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the London Stock Exchange or otherwise) or on settlement procedures for transactions in the Ordinary Shares on the London Stock Exchange if, in any such case, that suspension or limitation is, in the determination of the Calculation Agent, material in the context of the sale of the Ordinary Shares, or (ii) in the opinion of the Issuer, there has been a substantial deterioration in the price and/or value of the Ordinary Shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the Payment Ordinary Shares, or (iii) where, pursuant to these Terms and Conditions, monies are required to be converted from one currency into another currency in respect of any Payment, the occurrence of any event that makes it impracticable to effect such conversion;

"New Owner" means any new ultimate holding company of the Northern Rock group of companies;

"Ordinary Shares" means ordinary shares of the Issuer, having on the Issue Date a par value of 25 pence each;

"Outstanding", in relation to any Coupon Payment, Deferred Coupon Payment, Exceptionally Deferred Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment, means that such payment (a) has either become due and payable or would have become due and payable except for the non-satisfaction on the relevant date of the conditions referred to in Condition 2(b)(i) or the deferral, postponement or suspension of such payment in accordance with any of Condition 4(a), 4(b), 6(d), 6(e) or 8(d); and (b) in any such case has not been satisfied, and in relation to any Accrued Coupon Payment means any amount thereof which has not been satisfied whether or not payment has become due;

"Paying Agents" means the paying agents appointed pursuant to the Agency Agreement and such term shall, unless the context otherwise requires, include the Principal Paying Agent;

"Payment" means any Coupon Payment, Deferred Coupon Payment, Exceptionally Deferred Coupon Payment, Accrued Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment;

"Payment Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London and in the place of the specified office of the relevant Paying Agent to whom the RCI or Coupon is presented or surrendered;

"Payment Ordinary Shares" has the meaning ascribed to it in Condition 6(b);

"Principal Paying Agent" means the principal paying agent appointed pursuant to the Agency Agreement;

"RCIs" means the £200,000,000 8.399% Step-up Callable Perpetual Reserve Capital Instruments, and such expression shall include, unless the context otherwise requires, any further instruments issued pursuant to Condition 17 and forming a single series with the RCIs;

"RCI Holder" means the bearer of any RCI;

"Reference Bond" means, in relation to any calculation of the Suspension Redemption Price, the 8 per cent. Treasury Stock due 7 December 2015, or if such security is no longer in issue, such other United Kingdom government security as the Calculation Agent may, with the advice of the Reference Dealers, determine to be appropriate for determining the Suspension Redemption Price;

"Reference Dealers" means three brokers of gilts and/or gilt-edged market makers selected by the Calculation Agent in consultation with the Issuer and approved in writing by the Trustee, or such other three persons operating in the gilt-edged market as are selected by the Calculation Agent in consultation with the Issuer and approved in writing by the Trustee;

"Relevant Date" means (i) in respect of any payment other than a Winding-Up Claim, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date

has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "Relevant Date" means the date on which such moneys shall have been so received and notice to that effect shall have been given to the RCI Holders in accordance with Condition 16, and (ii) in respect of a Winding-Up Claim, the date which is one day prior to the commencement of the winding-up;

"Relevant Deferred Coupon Payment Date" means with respect to a deferral under Condition 4(a)(i), the Coupon Payment Date next following the 19th business day after such Exceptional Deferral Condition fails to be satisfied;

"Reset Date" means the First Reset Date and thereafter, every Coupon Payment Date falling on the fifth anniversary of the First Reset Date;

"Reset Period" means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

"Senior Creditors" means creditors of the Issuer (a) who are unsubordinated depositors or other unsubordinated creditors of the Issuer, or (b) whose claims are, or are expressed to be, subordinated (whether only in the event of the winding-up of the Issuer or otherwise) to the claims of unsubordinated depositors and other unsubordinated creditors of the Issuer but not further or otherwise, or (c) whose claims are in respect of Junior Subordinated Debt or (d) who are subordinated creditors of the Issuer other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the RCI Holders;

"Shareholders" means the holders at any given time of Ordinary Shares;

the "Solvency Condition" shall be satisfied in relation to the Issuer if its Assets exceed its Liabilities;

"Subsidiary" means each subsidiary for the time being of the Issuer;

"subsidiary" has the meaning ascribed to it under Section 736 of the Companies Act 1985;

"Substituted Issuer" has the meaning ascribed to it in Condition 13;

"Suspension" has the meaning ascribed to it in Condition 8(d);

"Suspension Redemption Price" means, in respect of each RCI, (a) the Authorised Denomination of such RCI or, if higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the gross redemption yield (as calculated by the Calculation Agent on the basis set out by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries Vol. 105, part 1, 1978, page 18 (as amended from time to time)) on the RCIs, if they were to be purchased at such price on the third dealing day prior to the date fixed for redemption, would be equal to the gross redemption yield on such dealing day of the Reference Bond plus 0.5 per cent., on the basis of the middle market price of the Reference Bond prevailing at 11.00 a.m. (London time) on such dealing day as determined by the Calculation Agent;

"Talon" means a talon for further Coupons;

"Tier 1 Capital" has the meaning ascribed to it in the Financial Services Authority's Guide to Banking Supervisory Policy or any successor publication replacing such guide;

"Trust Deed" means the trust deed dated 21 September 2000 between the Issuer and the Trustee;

"Trustee" means The Bank of New York as trustee for the RCI Holders and includes its successor(s);

"Upper Tier 2 Capital" has the meaning ascribed to it in the Financial Services Authority's Guide to Banking Supervisory Policy or any successor publication replacing such guide;

"Upper Tier 2 Securities" means securities of the Issuer that have substantially similar terms as the RCIs save that (1) they shall contain terms no less favourable to an investor than the then current minimum requirements of the Financial Services Authority in relation to Upper Tier 2 Capital and (2) the Coupon Rate of such securities shall be determined in such manner as shall result in it being 0.40 per cent. per annum below the Coupon Rate from time to time (and whether before or after the First Reset Date) applying to the RCIs; and

"Winding-Up Claim" has the meaning ascribed to it in Condition 2(b)(ii).

USE OF PROCEEDS

The net proceeds of the issue of the RCIs are estimated to amount to £198,000,000 and will be used for the development and expansion of the business of the Issuer and further to strengthen the capital base of the Issuer.

SUMMARY OF PROVISIONS RELATING TO THE RCIs WHILE IN GLOBAL FORM

Exchange

The RCIs will be represented initially by a Temporary Global RCI in bearer form without Coupons or Talons which will be deposited outside the United States with a common depository for Clearstream, Luxembourg and Euroclear on or about 21 September 2000. The Temporary Global RCI will be exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global RCI in bearer form without Coupons or Talons on or after a date which is expected to be 1 November 2000 (the "Exchange Date") upon certification as to non-US beneficial ownership as required by US Treasury regulations and as described in the Temporary Global RCI. Upon deposit of the Temporary Global RCI or the Permanent Global RCI (each a "Global RCI") with a common depository for Clearstream, Luxembourg and Euroclear, Clearstream, Luxembourg and Euroclear will credit each subscriber with a principal amount of RCIs equal to the principal amount thereof for which it has subscribed and paid.

Each of the persons shown in the records of Clearstream, Luxembourg or Euroclear as the holder of an RCI represented by a Global RCI must look solely to Clearstream, Luxembourg or Euroclear (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global RCI, subject to and in accordance with the respective rules and procedures of Clearstream, Luxembourg or Euroclear (as the case may be).

The Global RCIs will contain provisions applicable to the RCIs represented thereby, some of which modify the effect of the Terms and Conditions of the RCIs. Certain of these are summarised in this section.

For so long as any of the RCIs is represented by a Global RCI, the bearer of the Global RCI may, except as ordered by a court of competent jurisdiction or as required by law, be treated by the Issuer, the Trustee and the Paying Agents as the owner thereof and of all rights thereunder free from all encumbrances (in accordance with and subject to its terms and the Trust Deed) and the expression "RCI Holder" and related expressions shall be construed accordingly. Interests in RCIs which are represented by a Global RCI will only be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg and/or Euroclear, as the case may be.

If any date on which a payment is due on the RCIs occurs prior to the Exchange Date, the relevant payment will be made on the Temporary Global RCI only to the extent that certification as to non-US beneficial ownership as required by US Treasury regulations (in substantially the form referred to in the Temporary Global RCI or in such other form as is customarily issued in such circumstances by the relevant clearing system or depository) has been received by Clearstream, Luxembourg or Euroclear. Payment of amounts due in respect of the Permanent Global RCI will be made through Clearstream, Luxembourg or Euroclear without any requirement for certification.

The holder of the Temporary Global RCI shall not (unless, upon due presentation of such Temporary Global RCI for exchange (in whole or in part) for interests in the Permanent Global RCI, such exchange is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the RCIs represented by such Temporary Global RCI which falls due on or after the Exchange Date.

Interests in the Permanent Global RCI will be exchangeable in whole but not in part (free of charge to the holder) for definitive bearer RCIs (a) if the Permanent Global RCI is held on behalf of Clearstream, Luxembourg or Euroclear or the Alternative Clearing System (as defined below) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so by such holder giving notice to the Principal Paying Agent or (b) at any time at the option of the Issuer, by the Issuer giving notice to the Principal Paying Agent and the RCI Holders of its intention to exchange the Permanent Global RCI for definitive RCIs on or after the Permanent Global Exchange Date (as defined below) specified in the notice.

On or after the Permanent Global Exchange Date the holder of the Permanent Global RCI shall surrender the Permanent Global RCI to or to the order of the Principal Paying Agent. In exchange for the Permanent Global RCI, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive RCIs having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global RCI and a Talon.

“Alternative Clearing System” means any such other clearing system as shall have been approved by the Trustee.

“Permanent Global Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and except in the case of exchange pursuant to (a) above in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System are located.

Payments

Principal and interest in respect of the Permanent Global RCI shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of any Paying Agent which shall endorse such payment or cause payment to be endorsed in the appropriate schedule to the Permanent Global RCI. No person shall however be entitled to receive any payment on the Permanent Global RCI falling due after the Permanent Global Exchange Date, unless exchange of the Permanent Global RCI for definitive RCIs is improperly withheld or refused by or on behalf of the Issuer.

Notices

So long as the Permanent Global RCI is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, notices required to be given to RCI Holders may be given by their being delivered to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Terms and Conditions of the RCIs except that so long as the RCIs are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any notice delivered to Euroclear, Clearstream, Luxembourg and/or, as the case may be, the Alternative Clearing System shall be deemed to have been given to the RCI Holders on the day on which such notice is so delivered.

Meetings

The holder of the Permanent Global RCI shall be treated at any meeting of RCI Holders as having one vote in respect of each £1,000 principal amount of RCIs for which the Permanent Global RCI may be exchanged.

Purchase and cancellation

Cancellation of any RCI represented by the Permanent Global RCI which is required by the Terms and Conditions of the RCIs to be cancelled will be effected by reduction in the principal amount of the Permanent Global RCI.

Trustee's powers

In considering the interests of RCI Holders in circumstances where the Permanent Global RCI is held on behalf of any one or more of Euroclear, Clearstream, Luxembourg and an Alternative Clearing System, the Trustee may have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Permanent Global RCI and may consider such interests on the basis that such accountholders were the holder of the Permanent Global RCI.

NORTHERN ROCK PLC

History and Development

Northern Rock Building Society was formed on 1 July, 1965 as a result of the merger of Northern Counties Permanent Building Society (established in 1850) and Rock Building Society (established in 1865). After such time, Northern Rock Building Society merged with a number of small local building societies and, prior to its conversion to a public limited company in October 1997, was an amalgamation of 53 societies.

References to the "Group" are to Northern Rock and its subsidiary and associated undertakings. Northern Rock is the holding company and chief operating company of the Group. Northern Rock currently has the following three principal subsidiaries: Northern Rock Mortgage Indemnity Company Limited, a Guernsey limited liability company providing mortgage indemnity insurance to Northern Rock; Northern Rock (Guernsey) Limited, a Guernsey limited liability company engaging in retail deposit taking; and Regency Care Group Limited, a limited liability company registered in England which provides residential accommodation to the elderly.

The most significant development in the recent history of Northern Rock was its conversion, effective 1 October, 1997, from a building society to a public limited company listed on the London Stock Exchange and authorised under the Banking Act 1987. The conversion also resulted in the establishment of The Northern Rock Foundation, a charitable body which is entitled to receive approximately 5 per cent. of annual consolidated profit before tax of Northern Rock. Northern Rock is regulated by The Financial Services Authority.

Overview

Northern Rock is a specialised mortgage bank, whose core business is the provision of residential mortgage loans funded in both the retail and wholesale markets. Northern Rock has achieved rapid growth during the 1990s, with total assets under management, including securitised mortgages, rising from £11.6 billion at the end of 1995 to £23.1 billion at 30 June, 2000, an increase of almost 100 per cent. Profit on ordinary activities after tax for the six months ended 30 June, 2000 amounted to £84.5 million, an increase of almost 10 per cent. compared with the same period in 1999, generating a return on equity of 19.3 per cent. Earnings per ordinary share for the six month period was 19.8p, an increase of almost 16 per cent.

During the second half of the 1990's Northern Rock has seen compression in its net interest margin falling from 1.97 per cent. in 1995 to 1.36 per cent. in the second half of 1999. Greater stability has been seen in the six months ended 30 June, 2000 with net interest margin of 1.33 per cent. This stability has been achieved as a result of an easing in the pressure on retail funding costs, improved mix of higher margin lending products and a reduction in the relative cost of wholesale funding. Northern Rock has continued to achieve strong year-on-year profit growth through a combination of volume growth, cost efficiency, improvement in quality of lending and growth in other income.

Northern Rock is one of the lowest cost providers in its core business. Northern Rock's underlying cost to income ratio (defined as administrative expenses divided by total income) was 31.5 per cent. for the six months ended 30 June, 2000. Northern Rock's cost advantage is derived from a combination of factors: focus on its core business, a cost efficient distribution network and its geographical base in the North East of England.

Developments in the Group's distribution network have focused on cost efficiency, achieving volume growth of lending and supporting the Group's retail funding objectives. The branch network has been reduced to 76 branches with growth being generated through intermediaries, postal and telephone based distribution. During 2000 e-commerce facilities will be fully developed as an integral part of the Group's network, enabling customers to choose how and when they transact business with Northern Rock.

Lending

Residential Mortgage Lending

At 30 June, 2000 Northern Rock had £17.4 billion of advances secured on residential property, including £1.3 billion of securitised mortgages. Residential lending represents Northern Rock's core activity and accounts for 75 per cent. of total assets under management.

During the first half of 2000, net residential lending amounted to £1.5 billion, an estimated market share of 7.6 per cent. compared to a share of outstanding total UK balances of approximately 3.2 per cent. During 1999 constraints on lending volumes were eased following the issue of securitised notes in the final quarter of 1999. Securitisation will continue to be a major source of funding of mortgage assets in the future.

The Group's residential mortgage assets are spread geographically throughout the UK, are focused primarily on customers with a credit history and have conservative income multiples and loan to value ratios. The quality of the portfolio is good with only 0.8 per cent. of all balances more than three months or more in arrears, approximately half the UK average.

Commercial lending

Northern Rock has a commercial loan portfolio which comprises two elements. Commercial loans secured on residential properties mainly represent loans to organisations supported by government grants, such as housing associations, and residential investment lending to individuals. Balances on such loans amounted to £527 million and are included in the £17.4 billion of advances secured on residential property for reporting purposes.

Other commercial loans are all secured on non-residential property and mainly represent loans to individuals or corporations to support investment in properties for retail, office or industrial use. At 30 June, 2000 such lending amounted to £768 million.

Commercial loans provide a diversification of assets and enhance interest margin for the Group. Northern Rock intends to grow its commercial loan portfolio through enhancing distribution capacity while maintaining credit quality throughout the portfolio. At 30 June, 2000, only 0.7 per cent. of commercial loans were 3 months or more in arrears.

Personal Unsecured Lending

The Group engages in a limited amount of personal unsecured lending. Gross lending attributable to personal unsecured lending amounted to £338 million, resulting in balances of £599 million at 30 June, 2000. At 30 June, 2000, only 2.1 per cent. of personal unsecured loans were 3 months or more in arrears.

Personal unsecured lending is considered to be an area of potential profitable growth for Northern Rock. Recent developments have included the launch of a Northern Rock credit card and the launch of a residential mortgage with an unsecured loan facility and a single monthly repayment. Growth of unsecured lending will be controlled and Northern Rock does not intend to compromise risk in the pursuit of volume.

General Insurance and Life Assurance Distribution

Northern Rock distributes a limited range of household insurance and payment protection products, primarily to residential mortgage and personal unsecured loan customers, via third party providers. Under arrangements with third party providers, Northern Rock receives a commission and participates in the profit (but not the loss) from policies sold. Life assurance products are supplied to Northern Rock's customers through a tied relationship with Legal & General where Northern Rock introduces the customer to the insurer and receives a commission for doing so. These products provide a valuable source of other income.

Funding

Northern Rock has developed a diversified range of funding sources comprising on-shore and off-shore retail funding, wholesale funding and securitisation.

Retail funding deposits amounted to £11.6 billion at 30 June, 2000 representing approximately 1.9 per

cent. of UK retail deposits. The UK retail funding market has been particularly competitive in recent years as a result of new entrants which has affected the flow and price of retail deposits. Northern Rock has maintained its retail franchise and achieved a net inflow of £552 million in the first half of 2000 through the development of new products such as fixed rate bonds and base rate tracker accounts which provide customers with certainty as to their income. New sources of retail funding will continue to be sought including a recently launched combined savings account and investment bond in conjunction with Legal & General.

Wholesale funding has become increasingly important to Northern Rock and at 30 June, 2000 amounted to £8.3 billion following net new funding of £1.2 billion in the first half of 2000. An improved mix of short dated and medium term funding has been achieved with 43 per cent. of wholesale funds dated one year or longer at the end of June 2000. The diversification of sources of funding available to the Group will continue with particular emphasis on Europe and the United States. SEC registration became effective in July 2000 and will provide access to a wider range of investors especially in the United States.

Securitisation is the third and most recent arm of Northern Rock's funding strategy. An initial issue raising £600 million of mortgage-backed securities was completed in October 1999 and a second of £750 million on 1 March, 2000. Securitisation is expected to become a significant source of funding for Northern Rock, supporting incremental volume growth and capital efficiency.

Northern Rock (Guernsey) Limited

Northern Rock (Guernsey) Limited ("NRG") is a wholly owned subsidiary of Northern Rock. NRG's registered office is located at CIBC House, Rue du Pre, St. Peter Port, Guernsey GY1 6EQ. At 31 December 1999, its fully paid up issued share capital was 50,000,000 ordinary shares of £1 each, such issued share capital showing a value in the accounts of Northern Rock of £50.0 million. At 31 December 1999, Northern Rock owed NRG £1,755.7 million whilst NRG owed Northern Rock £7.9 million. Dividends received from NRG by Northern Rock in the last financial year amounted to £0.4 million.

Northern Rock Mortgage Indemnity Company Limited

Northern Rock Mortgage Indemnity Company Limited ("NORMIC") is a wholly owned subsidiary of Northern Rock. NORMIC's registered office is located at Fourth Floor, The Albany, South Esplanade, St. Peter Port, Guernsey GY1 4NF. At 31 December 1999, it had an issued share capital of 35,000,000 ordinary shares of £1 each of which £15.5 million was unpaid, such issued share capital showing a value in the accounts of Northern Rock of £19.5 million. At 31 December 1999, Northern Rock owed NORMIC £5.5 million whilst no amounts were owed by NORMIC to Northern Rock. Dividends received from NORMIC by Northern Rock in the last financial year amounted to £3.0 million.

Regency Care Group Limited

Regency Care Group Limited ("RCG") is a wholly owned subsidiary of Northern Rock. RCG's registered office is located at Adamson House, Kingston Park, Newcastle upon Tyne NE3 2EF. At 31 December 1999, its fully paid up issued share capital was 3,594,426 ordinary shares of £1 each, such issued share capital showing a nil value in the accounts of Northern Rock. At 31 December 1999, Northern Rock had no debts owing to RCG whilst RCG owed Northern Rock £43.5 million. No dividends were received from RCG by Northern Rock in the last financial year.

In November 1999, it was announced that Northern Rock intended to sell the assets of RCG. The disposals are expected to be completed in 2000, following which the Group will no longer have any direct involvement in the residential and care home business.

Capital

At 30 June, 2000 total capital amounted to £1.4 billion, resulting in a total capital ratio of 11.9 per cent. Tier 1 Capital was £865 million and the Tier 1 ratio 7.5 per cent.

During the first half of 2000 a share buyback programme was undertaken as part of the Group's management of capital. £89.3 million has been utilised to repurchase 25.2 million ordinary shares and

sufficient Foundation shares to maintain a 15 per cent holding in Northern Rock. No further buybacks are currently anticipated as capital targets have been met due to the rapid growth of assets experienced in the first half of 2000.

The Northern Rock Foundation

The establishment of The Northern Rock Foundation (the "Foundation") on conversion was intended to express Northern Rock's commitment to its mutual history and to the region from which the business has drawn much of its strength. The Foundation has as its primary objective helping to improve the conditions of people disadvantaged by age, infirmity, poverty or other circumstances. It receives approximately 5 per cent. of the annual consolidated profit before tax of Northern Rock, paid under deed of covenant. The Foundation has received non-voting and non-dividend-paying Foundation shares which would convert into just under 15 per cent. of the ordinary share capital of Northern Rock only in certain circumstances, principally involving a change in control of Northern Rock, in which event the deed of covenant would terminate.

CAPITALISATION OF NORTHERN ROCK PLC

The following table sets out, on a consolidated basis, the shareholders' funds and subordinated liabilities of Northern Rock plc (none of which is guaranteed or secured):

	As at 30.06.2000	As at 31.12.1999 <i>(Audited)</i>
	<i>£m</i>	<i>£m</i>
Shareholders' funds		
Equity shareholders' funds⁽¹⁾		
Called up share capital ⁽¹⁾	123.9	130.6
Share premium account	6.8	—
Capital redemption reserve	7.3	—
Profit and loss account	726.7	752.9
	864.7	883.5
Undated subordinated liabilities		
12 ⁵ / ₈ % Perpetual subordinated notes ⁽²⁾	19.8	19.8
8% Undated subordinated notes	61.5	61.5
Fixed rate undated subordinated notes	160.0	160.0
	241.3	241.3
Dated subordinated liabilities		
11 ³ / ₈ % Subordinated bonds due 2000	40.0	40.0
Subordinated floating rate notes due 2006	25.0	25.0
11.734% Subordinated loan repayable in 2016	20.0	20.0
10 ³ / ₈ % Subordinated bonds due 2018	50.0	50.0
9 ³ / ₈ % Subordinated bonds due 2021	149.1	149.1
	284.1	284.1

Notes:

	<i>Ordinary Shares of 25p each Number</i>	<i>Foundation Shares of 25p each Number</i>	<i>Total Number</i>	<i>Ordinary Shares of 25p each £m</i>	<i>Foundation Shares of 25p each £m</i>	<i>Total £m</i>
Authorised:						
At 30 June, 2000	614.0m	104.5m	718.5m	153.5	26.1	179.6
Issued and fully paid:						
At 30 June, 2000	421.2	74.4	495.6	105.3	18.6	123.9

At the Annual General Meeting on 27 April, 1999, a resolution was passed giving the Issuer the authority to make market purchases of ordinary shares up to a maximum of 10 per cent. of the issued share capital. A further resolution was passed providing for the Issuer to enter into a contingent share purchase contract with The Northern Rock Foundation to repurchase Foundation Shares in the same proportion and at the same price as the ordinary shares repurchased. These authorities expired at the Annual General Meeting held on 25 April, 2000 and were renewed on that date.

During 2000, Northern Rock plc commenced a rolling share buy-back programme. At 30 June, 2000, 25,174,000 Ordinary Shares have been repurchased at a weighted average price of 304p per share. 4,018,940 Foundation Shares have been repurchased at the same average price to ensure that the Foundation Shares continue to represent 15 per cent. of total issued share capital.

- (2) The Permanent Interest Bearing Shares ("PIBS") issued by North of England Building Society were replaced by perpetual subordinated notes of Northern Rock plc on conversion. These notes have a principal amount equal to the principal amount of the PIBS they replaced and carry the same rate of interest as those PIBS.
- (3) As at the date hereof, Northern Rock plc has no material contingent liabilities.
- (4) Save for the issue of RCIs contemplated in this Offering Circular, there has been no material change in the Shareholders' funds or subordinated liabilities of Northern Rock plc since 30 June, 2000. This capitalisation table has not been adjusted to reflect the issue of RCIs contemplated by this Offering Circular.

BOARD OF DIRECTORS

The Directors of Northern Rock are:

<i>Directors name and date of birth</i>	<i>Date of appointment</i>	<i>Business occupation</i>	<i>Other directorships</i>
Sir John Riddell (3 January, 1934) Chairman	13 November, 1996	Merchant Banker	Howick Trustees Limited SANE Charitable Company Limited Alpha Bank London Limited The Swaziland Settlement Limited The National Tenants Resource Centre Limited Govett Strategic Investment Trust Border and Southern Investments Limited Poplar Housing and Regeneration Community Association Guinness Trust Group Limited
The Hon. Matthew White Ridley (7 February, 1958) Deputy Chairman	13 November, 1996	Company Director	Seven Mile House Co Limited Trading Enterprises, Albury Limited Detail Properties Limited Northern Investors Company PLC Lycett Browne-Swinburne and Douglass Limited Lycetts Financial Services Limited International Centre for Life Trust International Centre for Life (Property) Limited International Centre for Life (Trading) Limited Blagdon Farming Ltd Stanhope Stores Ltd Lovaine Trust Company Limited Howick Trustees Limited Northern 2 VCT Plc PA Holdings Limited
Leo Peter Finn (13 July, 1938) Chief Executive	13 November, 1996	Chief Executive	Bellway PLC The Northern Rock Foundation Newcastle College Training & Enterprise Company Limited
Adam John Applegarth (3 August, 1962) Executive Director	30 October, 1996	Executive Director	Northern Rock (Guernsey) Limited International Centre for Life Trust
David Frank Baker (2 May, 1953) Executive Director	30 October, 1996	Executive Director	Northern Rock Financial Services Limited The Tyneside Economic Development Company Limited Dunelmian Homes Limited Northern Rock Syndications Limited Northern Rock Trustees Limited Northern Rock QUEST Company Limited Regency Care Group Limited BACS TEDCO Enterprises Limited Northern Rock (Bahamas) Limited Northern Rock Foundation Northern Rock Pension Scheme Northern Rock Homes
Robert Frederick Bennett (30 May, 1947) Finance Director	13 November, 1996	Group Finance Director	Northern Rock Estates Limited Northern Rock Properties Limited Northern Rock Trustees Limited North of England Estate Agents Limited Ever 1097 Limited

<i>Directors name and date of birth</i>	<i>Date of appointment</i>	<i>Business occupation</i>	<i>Other directorships</i>
Sir David Chapman (16 December, 1941) Non-Executive Director	13 November, 1996	Investment Banker	TEAM General Partner Limited Northumbria Coalition Against Crime Limited Breathe North Appeal Ltd The Shrievalty Association Limited Council – University of Durham McGill University (Canada) Trust High Gosforth Park Limited North East Regional Investment Fund Limited (NERIF) NES General Partner Limited
Lord Howick of Glendale (30 December, 1937) Non-Executive Director	13 November, 1996	Company Director and former Merchant Banker	Howick Trustees Limited Lovaine Trust Company Limited The Chelsea Physic Garden Company The Northern Rock Foundation
Hubert Robin Hutton (22 April, 1933) Non-Executive Director	13 November, 1996	Merchant Banker	Investment Management Regulatory Organisation Limited Singer and Friedlander Holdings Limited
Nichola Pease (3 April, 1961) Non-Executive Director	10 February, 1999	Company Director	JO Hambro Capital Management Limited Balfour Capital Limited
Sir George Russell (25 October, 1935) Non-Executive Director	13 November, 1996	Company Director	Alcan Aluminium Limited 3i Group plc Taylor Woodrow plc Camelot Group plc Northern Development Company
Derek Wanless 29 September, 1947 Non-Executive Director	1 March, 2000	Company Director	
John Streeton Ward 28 September, 1933 Non-Executive Director	13 November, 1996	Company Director	Northern Investors PLC Tyneside Stables Project Limited Newcastle Theatre Royal Limited Grainger Trust PLC (and a subsidiary company) Arriva plc Church Schools Limited Stobbo Castle

The business address of the directors is Northern Rock House, Gosforth, Newcastle upon Tyne NE3 4PL.

FINANCIAL STATEMENTS

1. Consolidated Financial Statements for the year ended 31 December 1999

The financial statements appearing on pages 34 to 37 have been extracted without material adjustment from the Annual Report and Accounts for the year ended 31 December 1999. Note 2 to such financial statements appearing on pages 38 and 39 has also been extracted without material adjustment from such Annual Report and Accounts. The Annual Report and Accounts include the notes to the financial statements in full. Such notes form an integral part of the financial statements. The financial statements and note 2 should be read in conjunction with such Annual Report and Accounts which are incorporated by reference in this Offering Circular and copies of which may be obtained at the specified office of each of the Paying Agents as set out in "General Information" below.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1999

	1999	1998
	<i>£m</i>	<i>as restated £m</i>
Continuing operations		
Interest receivable		
– interest receivable and similar income arising from debt securities	168.1	181.3
– other interest receivable and similar income	1,060.2	1,159.3
	<hr/>	<hr/>
	1,228.3	1,340.6
Interest payable	(961.1)	(1,071.3)
	<hr/>	<hr/>
Net interest income	267.2	269.3
Fees and commissions receivable	116.7	101.9
Fees and commissions payable	(21.9)	(19.4)
Other operating income	8.5	(1.1)
	<hr/>	<hr/>
Total income	370.5	350.7
Administrative expenses		
– administrative expenses	(111.5)	(99.7)
– covenant to The Northern Rock Foundation	(10.8)	(10.1)
	<hr/>	<hr/>
Total administrative expenses	(122.3)	(109.8)
Depreciation	(9.0)	(8.2)
	<hr/>	<hr/>
Operating expenses	(131.3)	(118.0)
Provisions for bad and doubtful debts	(11.9)	(16.3)
	<hr/>	<hr/>
Operating profit	227.3	216.4
Provision for loss on disposal of care homes	(12.2)	—
	<hr/>	<hr/>
Profit on ordinary activities before tax	215.1	216.4
Tax on profit on ordinary activities	(71.6)	(70.2)
	<hr/>	<hr/>
Profit on ordinary activities after tax	143.5	146.2
Dividends	(60.3)	(53.3)
	<hr/>	<hr/>
Profit retained for the financial year	83.2	92.9
	<hr/>	<hr/>
Earnings per Ordinary Share	32.4p	32.9p
Fully diluted earnings per Ordinary Share	32.3p	32.9p

CONSOLIDATED BALANCE SHEET

At 31 December 1999

	1999	1998
	<i>£m</i>	<i>as restated £m</i>
Assets		
Cash and balances at central banks	25.4	11.5
Loans and advances to banks	1,152.6	1,153.1
Loans and advances to customers	16,080.7	14,708.1
Securitised advances	576.3	—
Less: non-recourse finance	(565.8)	—
	16,091.2	14,708.1
Debt securities	2,387.0	2,002.4
Tangible fixed assets	88.2	140.1
Other assets	54.3	9.4
Prepayments and accrued income	326.1	190.2
	20,124.8	18,214.8
Total assets		
Liabilities		
Deposits by banks	747.8	847.8
Customer accounts	12,745.6	12,296.2
Debt securities in issue	4,633.6	3,403.0
Other liabilities	170.2	157.8
Accruals and deferred income	418.7	388.3
Provisions for liabilities and charges	—	15.5
Subordinated liabilities	525.4	305.9
Called up share capital	130.6	130.6
Profit and loss account	752.9	669.7
Shareholders' funds – equity	883.5	800.3
	20,124.8	18,214.8
Total liabilities		
Memorandum items		
Commitments	18.0	13.5

COMPANY BALANCE SHEET

At 31 December 1999

	1999	1998
	<i>£m</i>	<i>as restated £m</i>
Assets		
Cash and balances at central banks	25.4	11.5
Loans and advances to banks	1,084.3	1,098.5
Loans and advances to customers	16,132.7	14,766.2
Securitised advances	576.3	—
Less: non—recourse finance	(565.8)	—
	<hr/>	<hr/>
	16,143.2	14,766.2
Debt securities	2,306.8	1,938.1
Shares in Group undertakings	77.7	70.9
Tangible fixed assets	76.8	77.0
Other assets	20.9	8.3
Prepayments and accrued income	323.5	187.9
	<hr/>	<hr/>
Total assets	20,058.6	18,158.4
	<hr/>	<hr/>
Liabilities		
Deposits by banks	747.8	847.8
Customer accounts	12,723.8	12,242.3
Debt securities in issue	4,633.6	3,403.0
Other liabilities	187.1	170.4
Accruals and deferred income	373.8	389.5
Provisions for liabilities and charges	—	14.7
Subordinated liabilities	525.4	305.9
Called up share capital	130.6	130.6
Profit and loss account	736.5	654.2
Shareholders' funds – equity	867.1	784.8
	<hr/>	<hr/>
Total liabilities	20,058.6	18,158.4
	<hr/>	<hr/>
Memorandum items		
Commitments	33.5	29.0
	<hr/>	<hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 1999

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>£m</i>	<i>as restated</i>
			<i>£m</i>
Profit on ordinary activities after tax		143.5	146.2
Total recognised gains and losses for the year		143.5	146.2
Prior year adjustment – Goodwill	2	—	(11.0)
Prior year adjustment – Mortgage Incentive Costs	2		
Prior to 1 January 1998		32.5	—
Year ended 31 December 1998		9.6	—
		42.1	—
Total gains and losses recognised since last annual accounts		185.6	135.2

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 1999

	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>
Net cash inflow from operating activities	281.0	461.2
Returns on investments and servicing of finance	(34.6)	(29.2)
Taxation	(80.4)	(61.6)
Capital expenditure and financial investment	(373.1)	(275.4)
Equity dividends paid	(56.0)	(48.4)
Net cash (outflow)/inflow before financing	(263.1)	46.6
Financing	219.5	—
(Decrease)/increase in cash	(43.6)	46.6

NOTE 2 TO THE FINANCIAL STATEMENTS

2. Prior year adjustments and change in accounting estimate

a) Mortgage incentives

Change in accounting policy

Previously the costs of cashback incentives were amortised against other operating income in the profit and loss account over the shorter of three years or the incentive clawback period attaching to the cashback. The costs of other forms of mortgage incentives, included in fixed rate and discounted rate mortgages, were charged to the profit and loss account against net interest income as they were incurred, regardless of the incentive clawback period attaching to the product.

The revised treatment of mortgage incentive costs, as described in the principal accounting policies note, results in all interest related mortgage incentive costs being accounted for in the same manner, on a level yield basis. Previously, different products with the same level of incentive, incentive clawback period and level of profitability would result in different reported annual profit flows. The change to a level yield basis removes such distortions and presents results that more fairly demonstrate the underlying profitability of the business. The revised treatment of mortgage incentive costs is in accordance with the BBA Statement of Recommended Practice on accounting for Advances.

The change in accounting policy has been accounted for as a prior year adjustment resulting in the restatement of financial statements of prior years. The impact of the change in accounting policy on the results of the Group for the years presented is as follows:

	1999	1998
	£m	£m
Interest receivable	16.7	13.8
Tax on profit on ordinary activities	(5.1)	(4.2)
<i>Profit on ordinary activities after tax</i>	11.6	9.6

The cumulative impact of this change on deferred mortgage incentives and deferred taxation as at 31 December 1998 amounted to £60.3m and £18.2m respectively.

Change in accounting estimate

Cashback incentives were previously amortised against other operating income in the profit and loss account over the shorter of three years or the incentive clawback period attaching to the cashback. With effect from 1 January 1999, such incentives are amortised over the effective incentive clawback period, such amortisation now being charged against interest receivable. The amortisation charge for cashbacks for the year ended 31 December 1999 was £20.2m. If the period over which the cost of cashback incentives had not been changed, the amortisation charge against other operating income would have been £42.8m.

In addition, the cashback amortisation charge in the profit and loss account in 1998 has been reclassified from other operating income to net interest income. This reclassification amounted to £31.8m for the year ended 31 December 1998.

Fees relating to cashback mortgages were previously amortised over the same period as cashback mortgages. These are now accounted for in the same way as fees on all other mortgage products ie recorded in fees and commissions receivable on a receivable basis. Fees relating to all mortgage products included in fees and commissions receivable for the year ended 31 December 1999 amounted to £40.2m. Under the previous amortisation period, the amount would have been £35.0m.

b) Goodwill and intangible assets

In 1997, the Accounting Standards Board issued Financial Reporting Standard 10 'Goodwill and Intangible Assets' ('FRS 10') which is applicable for accounting periods ending on or after 23 December 1998. In 1998 Northern Rock implemented FRS 10 which requires that purchased goodwill be capitalised

and amortised through the profit and loss account over its expected useful life. Goodwill previously eliminated directly against reserves in accounting periods since the introduction of Financial Reporting Standard 7 'Fair Values in Acquisition Accounting' ('FRS 7') was reinstated on the balance sheet by way of a prior year adjustment.

When goodwill that was previously eliminated against reserves is reinstated on implementation of FRS 10 any impairment that is attributed to prior periods must be determined on the basis of impairment reviews performed in accordance with the standard. FRS 10 requires that goodwill should be reviewed for impairment at the end of the first financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable. In accordance with these requirements, an impairment review was conducted as at December 1997 on the purchased goodwill resulting from the acquisition of Kingsclear Homes Limited in December 1996, together with the unamortised goodwill from other acquisitions of care homes. The impairment review resulted in a write off of £9.2m accounted for as a prior year adjustment in 1997 together with goodwill amortisation of £1.1m. Cumulative amortisation to 31 December 1996 also accounted for as a prior year adjustment amounted to £0.7m.

2. Interim Financial Statements for the six months ended 30 June 2000

The financial information appearing on pages 40 to 44 and the notes to the interim results appearing on pages 45 to 55 have been extracted without material adjustment from the Northern Rock Group interim results for the six months ended 30 June 2000 issued on 20 July 2000.

FINANCIAL HIGHLIGHTS

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Key Performance Figures			
Gross lending	3,128	1,889	4,134
Net lending	2,008	974	1,949
Net retail funding (including accumulated interest)	552	(414)	306
Net non retail funding	1,247	1,226	1,274
Key Ratios – Profit and Loss			
	%	%	%
Total income : mean total assets	1.90	1.93	1.92
Total income : mean assets under management	1.81	1.93	1.91
Interest margin	1.33	1.47	1.41
Interest spread	1.09	1.19	1.14
Cost to income ratio	31.5	31.8	31.6
Cost to asset ratio	0.60	0.61	0.61
Cost to assets under management ratio	0.57	0.61	0.60
Provision charge as a % of mean advances to customers	0.10	0.08	0.08
Pre tax profit growth	9.8	4.0	6.4
Effective tax rate	31.0	32.0	31.5
Post tax profit growth	11.5	4.8	7.9
Post tax return on average equity	19.3	18.3	18.7
Post tax return on mean assets	0.80	0.81	0.82
Post tax return on mean assets under management	0.77	0.81	0.81
Shareholder Information			
	<i>p/share</i>	<i>p/share</i>	<i>p/share</i>
Earnings per share	19.8p	17.1p	32.4p
Fully diluted earnings per share	19.8p	17.1p	32.3p
Dividend per share	5.1p	4.5p	13.6p
Key Ratios – Balance Sheet			
	%	%	%
Growth in assets under management	11.8	5.8	13.6
Balance sheet growth	8.8	5.8	10.5
Total capital ratio	11.9	14.4	13.8
Tier 1 ratio	7.5	8.9	8.7

Notes

2000 first half profit growth figures are calculated by reference to 1999 first half results.

Asset growth in 2000 represents the growth of total assets between 31 December 1999 and 30 June 2000.

Profit and loss figures for the 1999 full year used in calculating the above ratios are stated before the effect of non recurring costs (£3.6 million) and provision for loss on disposal of care homes (£12.2 million). Half year figures for 2000 and 1999 do not require adjustment.

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<i>Six months to 30 June</i>		<i>Full Year</i>
		<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>Note</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>
Interest receivable				
interest receivable and similar income arising from debt securities		111.0	93.9	168.1
other interest receivable and similar income		596.4	517.6	1,060.2
		<u>707.4</u>	<u>611.5</u>	<u>1,228.3</u>
Interest payable		(569.8)	(476.3)	(961.1)
Net interest income	1	137.6	135.2	267.2
Fees and commissions receivable		60.5	53.3	116.7
Fees and commissions payable		(9.3)	(11.3)	(21.9)
Other operating income		11.0	3.8	8.5
		<u>62.2</u>	<u>45.8</u>	<u>103.3</u>
Total non interest income	4	62.2	45.8	103.3
Total income	1	199.8	181.0	370.5
Administrative expenses				
operating		(58.2)	(53.1)	(111.5)
covenant to The Northern Rock Foundation		(6.1)	(5.6)	(10.8)
		<u>(64.3)</u>	<u>(58.7)</u>	<u>(122.3)</u>
Total administrative expenses		(64.3)	(58.7)	(122.3)
Depreciation		(4.7)	(4.4)	(9.0)
Operating expenses	5	(69.0)	(63.1)	(131.3)
Provisions for bad and doubtful debts	6	(8.4)	(6.4)	(11.9)
		<u>122.4</u>	<u>111.5</u>	<u>227.3</u>
Operating profit		122.4	111.5	227.3
Provision for loss on disposal of care homes		—	—	(12.2)
		<u>122.4</u>	<u>111.5</u>	<u>215.1</u>
Profit on ordinary activities before tax		122.4	111.5	215.1
Tax on profit on ordinary activities		(37.9)	(35.7)	(71.6)
		<u>84.5</u>	<u>75.8</u>	<u>143.5</u>
Profit on ordinary activities after tax		84.5	75.8	143.5
Dividends		(21.3)	(20.0)	(60.3)
		<u>63.2</u>	<u>55.8</u>	<u>83.2</u>
Profit retained for the period		63.2	55.8	83.2
Earnings per share	8	19.8p	17.1p	32.4p
Fully diluted earnings per share	8	19.8p	17.1p	32.3p

CONSOLIDATED BALANCE SHEET

	30 June 2000 (Unaudited) £m	30 June 1999 (Unaudited) £m	31 December 1999 (Audited) £m
Assets			
Cash and balances at central banks	11.0	8.9	25.4
Loans and advances to banks	798.7	765.5	1,152.6
Loans and advances to customers	17,453.2	15,680.6	16,080.7
Securitised advances	1,255.6	—	576.3
Less: non recourse finance	(1,231.0)	—	(565.8)
10	17,477.8	15,680.6	16,091.2
Debt securities	3,035.5	2,421.9	2,387.0
Tangible fixed assets	91.5	140.9	88.2
Other assets	90.9	12.7	54.3
Prepayments and accrued income	390.0	243.3	326.1
Total assets	21,895.4	19,273.8	20,124.8
Liabilities			
Deposits by banks	956.8	1,024.8	747.8
Customer accounts	12 14,062.9	12,245.7	12,745.6
Debt securities in issue	4,906.3	4,087.7	4,633.6
Other liabilities	197.1	188.5	170.2
Accruals and deferred income	382.2	343.6	418.7
Subordinated liabilities	525.4	527.4	525.4
Called up share capital	13 123.9	130.6	130.6
Share premium account	13 6.8	—	—
Capital redemption reserve	13 7.3	—	—
Profit and loss account	13 726.7	725.5	752.9
Shareholders' funds – equity	864.7	856.1	883.5
Total liabilities	21,895.4	19,273.8	20,124.8
Assets under management	23,126.4	19,273.8	20,690.6

CONSOLIDATED CASHFLOW STATEMENT

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net cash inflow from operating activities	1,051.0	135.4	281.0
Returns on investments and servicing of finance	(21.6)	(14.1)	(34.6)
Taxation	(23.4)	(4.5)	(80.4)
Capital expenditure and financial investment	(637.1)	(408.4)	(373.1)
Equity dividends paid	(38.2)	(36.0)	(56.0)
Net cash inflow/(outflow) before financing	330.7	(327.6)	(263.1)
Financing	(81.9)	221.5	219.5
Increase/(decrease) in cash	248.8	(106.1)	(43.6)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>30 June 2000 (Unaudited) £m</i>	<i>30 June 1999 (Unaudited) £m</i>	<i>31 December 1999 (Audited) £m</i>
Profit on ordinary activities after tax	84.5	75.8	143.5
Total recognised gains and losses for the period	84.5	75.8	143.5
Prior year adjustment – Mortgage Incentive Costs	—	42.1	42.1
Total gains and losses recognised since last annual accounts	<u>84.5</u>	<u>117.9</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

	<i>30 June 2000 (Unaudited) £m</i>	<i>30 June 1999 (Unaudited) £m</i>	<i>31 December 1999 (Audited) £m</i>
Profit attributable to shareholders	84.5	75.8	143.5
Dividends	(21.3)	(20.0)	(60.3)
Repurchase of shares	63.2	55.8	83.2
Issue of ordinary shares	(89.3)	—	—
Reversal of accrued dividend on repurchased shares	5.2	—	—
	2.1	—	—
Net (reduction)/addition to shareholders' funds	<u>(18.8)</u>	<u>55.8</u>	<u>83.2</u>
Opening shareholders' funds	883.5	800.3	800.3
Closing shareholders' funds	<u>864.7</u>	<u>856.1</u>	<u>883.5</u>

NOTES TO THE INTERIM RESULTS

1. Total Income

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net interest income	137.6	135.2	267.2
Other income	62.2	45.8	103.3
Total income	199.8	181.0	370.5
Mean total assets	21,047.9	18,730.6	19,274.3
Mean assets under management	22,029.9	18,730.6	19,398.4
Total income : mean total assets	1.90%	1.93%	1.92%
Total income : mean assets under management	1.81%	1.93%	1.91%

2. Interest Spread and Margin

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Interest receivable	746.9	611.5	1,238.6
Interest payable	(604.2)	(476.3)	(970.3)
Net interest income	142.7	135.2	268.3
Average balances			
Interest earning assets	21,487.8	18,345.3	18,979.2
Interest bearing liabilities	20,601.0	17,392.2	18,021.3
Interest margin	1.33%	1.47%	1.41%
Interest spread	1.09%	1.19%	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 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:

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance Sheet:			
Opening balance	164.5	103.7	103.7
Additions	115.0	88.6	197.6
Amortisation	(88.1)	(64.2)	(136.8)
Closing balance	<u>191.4</u>	<u>128.1</u>	<u>164.5</u>
Profit and Loss Account:			
Amortisation	65.1	49.4	104.4
Current year immediate write off	23.0	14.8	32.4
	<u>88.1</u>	<u>64.2</u>	<u>136.8</u>

4. Other Income

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Commissions	27.5	21.8	54.3
Fees (net of service charges)	21.7	17.4	36.0
Securitisation income	4.9	—	0.5
Others and subsidiaries	8.1	6.6	12.5
Total	<u>62.2</u>	<u>45.8</u>	<u>103.3</u>

5. Operating Expenses

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Staff costs	28.3	26.0	53.6
Other expenses	29.9	27.1	57.9
Depreciation	4.7	4.4	9.0
Total	<u>62.9</u>	<u>57.5</u>	<u>120.5</u>

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

5. Operating Expenses (continued)

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

	<i>Full Time</i>		<i>Full Year</i> 1999
	<i>Six months to 30 June</i> 2000	1999	
Core business	2,375	2,255	2,175
Subsidiaries – administration	—	20	21
– direct	—	897	883
Total	2,375	3,172	3,079

	<i>Part Time</i>		<i>Full Year</i> 1999
	<i>Six months to 30 June</i> 2000	1999	
Core business	557	516	567
Subsidiaries – direct	—	883	888
Total	557	1,399	1,455

Figures for 2000 exclude the effect of Regency Care Homes as the care homes business is held for disposal.

6. Provisions for Losses on Loans and Advances

	<i>Six months to 30 June</i>		<i>Full Year</i> 1999
	2000	1999	
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Provisions charge:			
Specific			
Secured on residential property	1.8	3.6	7.9
Other secured	—	—	0.2
Unsecured	3.8	1.4	3.6
	5.6	5.0	11.7
General			
Secured on residential property	1.0	—	(4.2)
Other secured	0.2	—	1.1
Unsecured	1.6	1.4	3.3
	2.8	1.4	0.2
Total provision charge	8.4	6.4	11.9
% of mean advances to customers	0.10%	0.08%	0.08%

6. Provisions for Losses on Loans and Advances (continued)

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Provisions balance:			
Specific			
Secured on residential property	7.5	9.0	9.3
Other secured	2.5	3.4	2.5
Unsecured	5.4	2.3	3.2
Total	15.4	14.7	15.0
General			
Secured on residential property	16.4	19.6	16.0
Other secured	7.4	6.1	6.5
Unsecured	6.9	3.5	5.4
Total	30.7	29.2	27.9
Total provision balance	46.1	43.9	42.9
% of period end advances to customers	0.26%	0.28%	0.27%

7. Residential Mortgage Arrears

	<i>Six months to 30 June</i>				<i>Full Year</i>	
	<i>2000</i>		<i>1999</i>		<i>1999</i>	
	<i>Cases</i>	<i>% of Total Mortgages</i>	<i>Cases</i>	<i>% of Total Mortgages</i>	<i>Cases</i>	<i>% of Total Mortgages</i>
3-6 months	1,706	0.5%	1,976	0.6%	1,749	0.5%
6-12 months	757	0.2%	1,069	0.3%	870	0.3%
Over 12 months	340	0.1%	627	0.2%	447	0.1%
Total	2,803	0.8%	3,672	1.1%	3,066	0.9%

8. Earnings per Share

	Six months to 30 June		Full Year
	2000	1999	1999
	£m	£m	£m
Profit after tax (page 41 ⁽¹⁾)	84.5	75.8	143.5
Underlying profit after tax	84.5	75.8	157.7

1999 full year underlying profit after tax represents profit after tax adjusted for non recurring costs (£3.6 million) and the provision for loss on the disposal of care homes (£12.2 million) together with the associated adjustment to taxation and the covenant to The Northern Rock Foundation. The half year figures for 2000 and 1999 do not require adjustment.

Weighted average number of shares in issue	426.2m	443.6m	443.5m
Basic EPS	19.8p	17.1p	32.4p
Underlying EPS	19.8p	17.1p	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	427.0m	444.2m	443.9m
Fully diluted EPS	19.8p	17.1p	32.3p
Underlying fully diluted EPS	19.8p	17.1p	35.5p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 0.8 million (30 June 1999: 0.6 million, 31 December 1999: 0.4 million) potentially dilutive Ordinary shares resulting from options granted under The Northern Rock Sharesave Scheme.

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.

Note

⁽¹⁾Amended to reflect the page numbers of this Offering Circular.

9. Mortgage Lending

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

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>%</i>	<i>%</i>	<i>%</i>
Type of lending			
Fixed rate (long term)	3	9	8
Fixed rate (short term)	55	41	40
Discount	5	28	21
Cashback	9	22	21
Together	26	—	10
HERM	2	—	—
Type of customer			
First time buyer	30	22	23
Next time buyer	47	50	50
Remortgage	23	28	27
Geographic spread			
North	17	20	19
Scotland	9	12	11
Midlands	28	25	25
South	46	43	45

10. Loans and Advances to Customers

	<i>30 June</i>	<i>30 June</i>	<i>31 December</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Advances secured on residential property	16,108.2	14,992.5	15,215.2
Advances secured on residential property (securitised)	1,255.6	—	576.3
Adjusted total advances secured on residential property	17,363.8	14,992.5	15,791.5
Other secured advances	758.2	467.5	548.5
Unsecured loans	586.8	220.6	317.0
	18,708.8	15,680.6	16,657.0
Less: non recourse finance	(1,231.0)	—	(565.8)
	<u>17,477.8</u>	<u>15,680.6</u>	<u>16,091.2</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.

Securitisation transactions entered into are as follows:

<i>Securitisation company</i>	<i>Date of securitisation</i>	<i>Gross assets securitised £millions</i>	<i>Subordinated loans made by Group £millions</i>
Granite Mortgages 99-1 plc	1 October 1999	600	10.8
Granite Mortgages 00-1 plc	1 March 2000	750	13.1

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:

	<i>Six months to 30 June 2000 £m</i>	<i>1999 £m</i>	<i>Full Year 1999 £m</i>
Interest receivable	39.5	—	10.3
Interest payable	(34.4)	—	(9.2)
Net interest receivable	5.1	—	1.1
Other income	0.2	—	—
Administrative and other expenses	(0.4)	—	(0.6)
Profit for the financial period	4.9	—	0.5

12. Analysis of Customer Accounts

	<i>30 June 2000 £m</i>	<i>30 June 1999 £m</i>	<i>31 December 1999 £m</i>
Branch accounts	1,589.2	1,809.6	1,737.4
Postal accounts	4,141.8	3,865.2	4,012.1
Offshore accounts	1,862.0	1,785.3	1,721.0
Telephone accounts	4,048.2	2,909.1	3,619.1
Total retail balances	11,641.2	10,369.2	11,089.6
Other customer accounts	2,421.7	1,876.5	1,656.0
	14,062.9	12,245.7	12,745.6

13. Capital and Reserves

	<i>Ordinary Shares</i>		<i>Foundation Shares</i>		<i>Total Share Capital</i>	
	<i>Number</i>	<i>£m</i>	<i>Number</i>	<i>£m</i>	<i>Number</i>	<i>£m</i>
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 30 June 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>

	<i>Share Premium Account</i>	<i>Capital Redemption Reserve</i>	<i>Profit and Loss Account</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
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	—	—	63.2
At 30 June 2000	<u>6.8</u>	<u>7.3</u>	<u>726.7</u>

During the six months ended 30 June 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.

14. Capital Structure

	<i>30 June 2000 £m</i>	<i>30 June 1999 £m</i>	<i>31 December 1999 £m</i>
Tier 1			
Share capital	123.9	130.6	130.6
Share premium account	6.8	—	—
Capital redemption reserve	7.3	—	—
Profit and loss account	726.7	725.5	752.9
Total Tier 1 capital	864.7	856.1	883.5
Upper Tier 2			
Perpetual subordinated debt	241.3	241.3	241.3
General provisions	30.7	29.2	27.9
Total Upper Tier 2 capital	272.0	270.5	269.2
Lower Tier 2			
Term subordinated debt	247.4	255.6	251.4
Total Tier 2 Capital	519.4	526.1	520.6
Deductions	(8.4)	(1.3)	(3.7)
Total capital	1,375.7	1,380.9	1,400.4
Risk weighted assets	11,515.7	9,569.8	10,135.3
Tier 1 ratio (%)	7.5	8.9	8.7
Tier 2 to Tier 1 ratio (%)	60.0	61.5	58.9
Total capital (%)	11.9	14.4	13.8

15. Dividends

Ex dividend date	25 September 2000
Record date	29 September 2000
Payment date	31 October 2000

16. Reconciliation of Operating Profit to Net Operating Cash Inflows

	<i>Six months to 30 June</i>		<i>Full Year</i>
	<i>2000</i>	<i>1999</i>	<i>1999</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Operating profit	122.4	111.5	227.3
Increase in prepayments and accrued income	(63.9)	(53.1)	(135.9)
(Decrease)/increase in accruals and deferred income	(36.5)	(44.7)	30.4
Provision for bad and doubtful debts	8.4	6.4	11.9
Loans and advances written off net of recoveries	(5.2)	(5.3)	(11.8)
Depreciation and amortisation	4.7	4.4	9.0
Interest on subordinated liabilities	21.6	14.1	34.6
Other non-cash movements	(4.6)	(16.3)	(19.3)
Net cash inflow from trading activities	46.9	17.0	146.2
Net increase in loans and advances to banks and customers	(1,431.5)	(689.5)	(2,006.0)
Net increase in deposits by banks and customer accounts	1,499.2	126.5	349.4
Net increase in debt securities in issue	937.9	684.7	1,796.4
Net (increase)/decrease in other assets	(9.6)	0.8	(3.6)
Net increase/(decrease) in other liabilities	8.1	(4.1)	(1.4)
Net cash inflow from operating activities	1,051.0	135.4	281.0

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 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 21 July 2000.

The report is also available on the Northern Rock website www.northernrock.co.uk from 8.30am on 20 July 2000.

18. Basis of Preparation

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

19. Independent Review Report to Northern Rock plc

Introduction

We have been instructed by the Company to review the financial information set out on pages 41⁽¹⁾ to 44⁽¹⁾ and we have read the other information contained in the interim report for 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 2000.

PricewaterhouseCoopers
Chartered Accountants

Newcastle upon Tyne
20 July 2000

Note

⁽¹⁾Amended to reflect the page numbers of this Offering Circular.

UNITED KINGDOM TAXATION

The following is a summary of the current United Kingdom taxation treatment of the RCIs. It is not exhaustive. It relates only to the position of persons who are the absolute beneficial owners of the RCIs and Coupons and may not apply to certain classes of RCI Holders, such as dealers in securities. RCI Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

Withholding tax

1 The RCIs will constitute "quoted Eurobonds" within the meaning of section 124 of the Income and Corporation Taxes Act 1988 ("ICTA") provided they continue to be listed on a "recognised exchange" within the meaning of section 841 of ICTA (the Luxembourg Stock Exchange is so recognised). Accordingly, while the RCIs remain in global form and are held in a recognised clearing system within the meaning of section 841A of ICTA (Clearstream, Luxembourg and Euroclear have each been designated as a "recognised clearing system"), payments of interest on the RCIs may be made by any paying agent without withholding or deduction for or on account of United Kingdom income tax provided that, where required, such paying agent has received an appropriate declaration or a notice from the Inland Revenue. If the RCIs are issued in definitive form in the circumstances set out under "Summary of provisions relating to RCIs while in global form" and continue to be listed on a recognised stock exchange, then payments of interest on the RCIs may be made without withholding or deduction where:

- (a) payment is made by or through an overseas paying agent; or
- (b) payment is made by or through a United Kingdom paying agent and either:
 - (i) the beneficial owner of the RCIs is not resident in the United Kingdom and is beneficially entitled to the interest; or
 - (ii) the RCIs are held in a recognised clearing system,

and, if required by regulations, a declaration in appropriate form has been given to the person by or through whom the payment is made or the Inland Revenue has issued an appropriate notice to that person, provided that the Inland Revenue has not issued a direction that it considers that neither of the conditions in (i) or (ii) is satisfied.

In all other cases, interest on the RCIs will be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the Inland Revenue under an applicable double tax treaty.

The requirements discussed in (a) and (b) above, together with the requirement for appropriate declarations to be made will, as a result of the provisions contained in the Finance Act 2000 (the "Finance Act"), cease to apply to interest payments that are made on the RCIs on or after 1 April 2001. On the basis of the measures included in the Finance Act, the only requirement that will have to be satisfied from 1 April 2001 in order for interest payable on the RCIs to be paid free of UK withholding tax is that the RCIs are listed on a recognised stock exchange within the meaning of section 841 of ICTA (and as mentioned above, the Luxembourg Stock Exchange is so recognised).

- 2 Where an RCI constitutes a "quoted Eurobond" as defined above and any person in the United Kingdom who in the course of a trade or profession acts as a collecting agent, i.e. either:
- (a) acts as custodian of the RCI and receives interest on the RCI or directs that interest on the RCI be paid to another person or consents to such payment; or
 - (b) collects or secures payment of, or receives interest on the RCI for an RCI Holder or a Couponholder; or
 - (c) otherwise acts for another person in arranging to collect or secure payment of interest on the RCI,

(except by means only of clearing a cheque or arranging for the clearing of a cheque) the collecting agent will be liable to account for a sum representing income tax at the lower rate (currently 20 per cent.) on payments of interest on the RCI and will deduct such a sum unless:

- (i) the relevant RCI is held in a recognised clearing system and the collecting agent either:
 - (1) pays or accounts for the interest directly or indirectly to the recognised clearing system;
or
 - (2) is acting as depository for the recognised clearing system in respect of the relevant RCI;
or
- (ii) the person beneficially entitled to the interest is either not resident in the United Kingdom and beneficially owns the relevant RCI or is prescribed by regulations; or
- (iii) the interest arises to trustees not resident in the United Kingdom of certain discretionary or accumulation trusts (where, *inter alia*, none of the beneficiaries of the trust is resident in the United Kingdom); or
- (iv) the person beneficially entitled to the interest is eligible under specified provisions for certain reliefs from tax in respect of the interest; or
- (v) the interest falls to be treated as the income of, or of the government of, a sovereign power or of certain international organisations.

For exceptions (i)(1) (other than where payment is made directly to the recognised clearing system) and (ii) to (v) to be available, a declaration in a specified form has to be provided (or a notice issued by the Inland Revenue) in all cases to the collecting agent. The collecting agent will be liable to account to the Inland Revenue for, and will be entitled to withhold United Kingdom income tax at, the lower rate if the Inland Revenue issues a direction to that effect, having reason to believe that no exception applies or that the depository or collecting agent has failed to comply with certain requirements.

The measures included in the Finance Act referred to in paragraph 1 above also apply to collecting agents. Therefore, the requirements with respect to collecting agents described in this paragraph 2 will cease to apply for payments of interest made on or after 1 April 2001.

- 3 The interest on the RCIs will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom income tax by direct assessment even if paid without withholding or deduction. The profit realised on any disposal (which includes redemption) of any RCI issued at an issue price of less than the amount payable on redemption is similarly chargeable but does not attract United Kingdom withholding. However, neither such profit nor interest received without deduction or withholding is chargeable to United Kingdom tax in the hands of an RCI Holder who is not resident for tax purposes in the United Kingdom unless the RCI Holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest or profit is received or to which the RCIs are attributable. There are certain exceptions for income received by specified categories of agent (such as some brokers and investment managers).
- 4 Where interest on the RCIs has been paid under deduction of United Kingdom income tax, RCI Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
- 5 The provisions relating to additional payments referred to in Condition 11 of "Terms and Conditions of the RCIs" would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest or (where applicable) profit on any RCI directly to United Kingdom income tax. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

Holders within the charge to United Kingdom corporation tax

- 6 The RCI may be "qualifying assets" for the purposes of the United Kingdom's provisions relating to the taxation of foreign exchange gains and losses (the "FOREX provisions"). A corporate RCI Holder which is within the charge to United Kingdom corporation tax and is subject to the FOREX provisions may, depending on the movement of sterling, the currency in which the RCIs are denominated, against the "local currency" of the RCI Holder, realise an income gain or loss taxable on an accruals basis for United Kingdom tax purposes for each accounting period during which the RCIs are held, notwithstanding that there has been no disposal of the RCIs.
- 7 For corporate RCI Holders within the charge to United Kingdom corporation tax, RCIs will normally constitute "qualifying corporate bonds" within section 117 of the Taxation of Chargeable Gains Act 1992. Such corporate RCI Holders will normally recognise any gain or loss for corporation tax purposes under the "loan relationship" rules in the Finance Act 1996. Under these rules, all interest, profits, gains and losses, measured and recognised in accordance with an authorised accruals or mark to market basis of accounting method, are taxed or relieved as income.

Holders not within the charge to United Kingdom corporation tax

- 8 On a disposal or redemption of the RCIs, an RCI Holder who is not within the charge to United Kingdom corporation tax and who is a UK taxpayer may realise a chargeable gain or an allowable loss for United Kingdom capital gains tax purposes.
- 9 RCI holders who are within the charge to United Kingdom income tax on the interest payable on the RCIs will generally be liable to tax on this interest when it is paid to them in cash or in the form of Ordinary Shares (see 6 above).
- 10 A transfer of RCIs by an RCI Holder which is not a company within the charge to United Kingdom corporation tax and which is resident or ordinarily resident in the United Kingdom or which carries on a trade in the United Kingdom through a branch or agency to which the RCIs are attributable may give rise to a charge to United Kingdom income tax in respect of an amount representing interest on the RCIs which has accrued since the preceding Coupon Payment Date under the provisions of the "accrued income scheme" (the "Scheme"). The RCIs will be variable rate securities within the meaning of section 717 of ICTA. Accordingly, on a transfer of an RCI, an amount of interest which is just and reasonable will be treated as accrued income under the Scheme. However, the transferee will not be entitled to any relief for that amount under the Scheme.

Payment of interest in shares

- 11 In certain cases the Issuer may issue Ordinary Shares to discharge its obligations to make an interest payment on the RCIs (as described in the Summary under "Alternative coupon satisfaction mechanism" and as set out in more detail in Condition 6 of the Terms and Conditions). Such Ordinary Shares will be issued to the Trustee acting on behalf of the Couponholders and will then be sold by the Trustee in the market. The Trustee will then make a cash payment to Couponholders which will be equal to the interest payment(s) in question.

It is intended that the Ordinary Shares issued by the Issuer will have a market value equal to the outstanding interest payment(s). Provided that this is the case, a Couponholder should not realise a capital gain as a result of sale of the Ordinary Shares. For Couponholders not within the charge to United Kingdom corporation tax in respect of the RCIs, the issue of Ordinary Shares will be treated as a payment of the interest payment(s) in question.

- 12 Where the Issuer issues Ordinary Shares to satisfy a coupon payment, as described in Condition 6, the issue of the Ordinary Shares by the Issuer will be treated as representing payment of the interest payment in question. As explained in Condition 6, the Issuer will issue such number of Ordinary Shares as is required in order to generate sufficient proceeds to discharge the interest payment in question. As the Issuer Ordinary Shares are denominated in sterling, and assuming that sterling is still the official currency of the United Kingdom, it is anticipated that the proceeds generated from the sale of such Ordinary Shares will be in sterling. This sterling amount will generally be the amount on which investors who are within the charge to United Kingdom income

tax (and are not within the charge to corporation tax) will be liable to income tax in respect of the interest payment in question.

Proposed EU Directive on the taxation of savings income

- 13 In June 2000 the European Council agreed to amend earlier proposals published in May 1998 by the European Commission regarding the taxation of income of non-residents and relating, in particular, to the introduction of withholding tax on payments of interest. Subject to sufficient reassurance being obtained from a number of countries outside the European Union to promote the adoption of equivalent measures, the European Council has now agreed that Member States will be required no later than 31 December 2002 either (a) to exchange information with other Member States regarding savings income paid to non-residents or (b) to withhold tax on such income at a rate to be agreed, provided that Member States that operate a withholding system must implement exchange of information as soon as conditions permit and in any case no later than seven years after implementation of the proposals. Details of the amended proposals have not yet been published.

The United Kingdom intends to opt for exchange of information rather than withholding under the EU proposals through implementation of the Finance Act provisions noted above. Following implementation of both sets of proposals no withholding of UK tax would be expected to be required in respect of payments of interest on the RCIs by a United Kingdom issuer or paying agent.

SUBSCRIPTION AND SALE

Under a subscription agreement entered into with the Issuer on 18 September 2000 (the "Subscription Agreement"), Barclays Bank PLC (the "Subscriber") has agreed to subscribe for the RCIs at the issue price of 100.0 per cent. of their principal amount. The Issuer has agreed to pay to the Subscriber a combined management and underwriting commission of 1.0 per cent. of the principal amount of the RCIs. The Subscription Agreement is subject to termination in certain circumstances prior to payment to the Issuer.

The RCIs have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

RCIs are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations thereunder.

The Subscriber has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver RCIs (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells RCIs during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of RCIs within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of RCIs within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

The Subscriber has represented and agreed that:

- (1) it has not offered or sold and prior to the date six months after the date of issue of the RCIs will not offer or sell any RCIs to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (2) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the RCIs in, from or otherwise involving the United Kingdom; and
- (3) it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the RCIs, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on.

No action has been or will be taken in any country or any jurisdiction by the Subscriber or the Issuer that would permit a public offering of the RClS, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the RClS, in any country or jurisdiction where action for that purpose is required. The Subscriber has agreed to comply with all applicable laws and regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers RClS or has in its possession or distributes this Offering Circular or any such other material relating to the RClS, in all cases at its own expense. The Subscriber has also undertaken to ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions. The Issuer will have no responsibility for, and the Subscriber has agreed to obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of RClS under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Subscriber has not been authorised to make any representation or use any information in connection with the issue, subscription and sale of the RClS other than as contained in this Offering Circular or any amendment or supplement to it.

GENERAL INFORMATION

- (1) In connection with the application to list the RCIs on the Luxembourg Stock Exchange a legal notice relating to the issue of the RCIs and copies of the Memorandum and Articles of Association of the Issuer will be deposited with the Chief Registrar of the District Court in Luxembourg ("*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*") where such documents may be examined and copies obtained.
- (2) The RCIs have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 11703119. The ISIN code for the Notes is XS0117031194.
- (3) All RCIs and Coupons will carry a legend to the following effect "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that United States persons, with certain exceptions, will not be entitled to deduct any loss, and will not be entitled to capital gains treatment with respect to any gain, realised on any sale, exchange or redemption of an RCI or Coupon.
- (4) No member of the Group is or has been involved in any legal or arbitration proceedings relating to claims on amounts which are material in the context of the issue of the RCIs nor, so far as the Issuer is aware, are any such proceedings pending or threatened.
- (5) There has been no material adverse change in the financial position of the Issuer or the Group since 31 December 1999.
- (6) No redemption or purchase by the Issuer or any of its subsidiaries for cancellation of the RCIs will be made by the Issuer without the prior consent of the Financial Services Authority.
- (7) Copies of the latest annual report and consolidated accounts of the Issuer and the latest interim consolidated accounts of the Issuer may be obtained, and copies of the Trust Deed will be available for inspection, at the specified office of each of the Paying Agents during normal business hours, so long as any of the RCIs is outstanding. The interim accounts are currently produced on a semi-annual basis. The Issuer does not publish non-consolidated profit and loss accounts.
- (8) The consolidated accounts of the Issuer for the year ended 31 December, 1997 have been audited, without qualification, in accordance with Auditing Standards issued by the Auditing Standards Board, by Price Waterhouse Chartered Accountants and Registered Auditors of 89 Sandyford Road, Newcastle upon Tyne, NE99 1PL. The consolidated accounts of the Issuer for the years ended 31 December, 1998 and 31 December, 1999 have been audited, without qualification, in accordance with Auditing Standards issued by the Auditing Standards Board, by PricewaterhouseCoopers Chartered Accountants and Registered Auditors of 89 Sandyford Road, Newcastle Upon Tyne NE99 1PL. The financial information included on pages 34 to 39 of this document does not constitute statutory accounts of the Issuer within the meaning of section 240 of the Companies Act 1985 (the "Companies Act"). Statutory consolidated accounts relating to each financial year to which such financial information relates have been delivered to the Registrar of Companies in England and Wales. The Issuer's auditors have made reports under Section 235 of the Companies Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Companies Act and did not contain any statements made under Section 237(2) or (3) of the Companies Act.

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