

NORTHERN ROCK GROUP ANNUAL RESULTS

26 January 2005

Northern Rock plc today issued its preliminary results for the year ended 31 December 2004.

HIGHLIGHTS

Operating Performance

- Assets under management of £64.9 billion - an increase of 24.9%
- Record gross lending of £23.3 billion - an increase of 34.8%
- Record net lending of £12.9 billion - an increase of 51.9%
- Share of UK net mortgage lending of 11.2% - up from 7.8% in 2003
- 2005 opening lending pipeline of £5.1 billion - up 31.8% on start of 2004
- Only 0.37% (2003 - 0.45%) of mortgage accounts 3 months or more in arrears - half of industry average

Profits

- Record pre tax profits of £431.2 million - a like-for-like increase of 13.0%
- Ratio of costs to assets under management improved to 0.38% (2003 underlying - 0.41%)
- Ratio of total income to mean assets under management unchanged from first half at 1.25%

Shareholder Value

- Return on equity of 21.3%
- Earnings per share 74.1p - an increase of 11.8% on 2003 underlying earnings per share
- Total dividend per share 26.5p - an increase of 13.7%

Social Responsibility

- The Northern Rock Foundation - supporting charitable causes - to receive £21.6 million

Adam J Applegarth, Chief Executive, said:

“In 2004 we again delivered a strong financial and operating performance maintaining our growth momentum. Assets under management reached £64.9 billion by the end of the year, an increase of 24.9%. In the second half, both our total income to mean assets under management ratio and the interest spread on our loan assets remained stable enabling full year underlying earnings per share to grow by 11.8% and resulting in a return on equity of 21.3%.

As anticipated, in the second half of the year our lending volume remained strong even though the housing market slowed. Our estimated share of residential net lending was 11.2% for the year and over 14% for the second half. We are starting 2005 with a new business pipeline of £5.1 billion, 32% up as at the same time last year. All of this demonstrates that Northern Rock remains a poor proxy for the housing market.

Our strategic targets for 2005 and beyond remain unchanged, reflecting the success of our customer retention stance, the quality of our loan portfolios, our ability to fund from a range of well diversified sources and our confidence that we can continue to grow even in a slowing market.”

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Overview

Northern Rock achieved strong lending growth in 2004 resulting in assets under management increasing by 24.9% to £64.9 billion. Estimated residential net lending market share was particularly strong in the second half at over 14%, demonstrating the sustainability of Northern Rock's growth strategy even in a slowing market. Like-for-like profit before tax growth of 13.0% was also a strong performance in a year when margins were squeezed as a result of the negative LIBOR to Bank Base Rate differential, which persisted throughout the year. Return on equity at 21.3% remained in the top half of our strategic target range.

Our retail funding franchise remains robust with a record second half growth in balances. We have continued to develop our non-retail funding in international markets and established a covered bond programme in the first half of the year. We remain a major participant in the global residential mortgage securitisation markets, which will, together with our other funding arms, continue to be important in the achievement of our future growth plans.

Lending

During 2004 Northern Rock has again achieved record levels of total lending. Total gross lending was £23,342 million, an increase of 34.8% (2003 - £17,315 million), with total net lending of £12,932 million, an increase of 51.9% (2003 - £8,514 million). Prospects for 2005 are good, with an opening pipeline of £5.1 billion, an increase of 31.8% (2004 opening - £3.9 billion). The opening residential lending pipeline at £4.7 billion represents an increase of 36.6% (2004 opening - £3.4 billion).

The UK residential lending market was particularly buoyant during the first half of 2004 with levels of both gross and net lending exceeding the equivalent period in 2003. Since then both gross and net lending and net awards have slowed, following the effect of 5 one quarter per cent increases in Bank Base Rate since November 2003. By the end of 2004 annual house price inflation was at similar levels to that seen in 2003 although the second half of the year showed limited growth, providing clear evidence that house price inflation is slowing. With the level of housing transactions at the lower end of long term trends and house price inflation likely to be over for the time being, new residential lending is likely to show some contraction in 2005. Gross lending will, however, be supported by sustained levels of remortgage activity as customers seek to refinance to obtain better deals and to protect their personal budgets. Economic conditions remain supportive to the market with low inflation, low unemployment, low interest rates and consequently good affordability.

Against this background we achieved gross residential lending of £20,051 million (2003 - £15,212 million) and net residential lending of £11,383 million (2003 - £7,861 million), representing increases of 31.8% and 44.8% respectively. Our estimated share of gross residential lending for the year was 6.8% and our estimated market share of net residential lending was 11.2%. This compares with 5.8% and 8.2% respectively for the first half of 2004, resulting in the achievement of a net market share of over 14% in the second half of the year. Our estimated share of redemptions was only 4.5%, again significantly lower than our estimated closing share of mortgage stock of 5.5%. This was due to our pro-active customer retention process and our fair and transparent policy of allowing existing customers, subject to contractual terms, to transfer their loan to any product available to new borrowers.

The low risk profile of our new lending has continued despite strong growth in volumes. The proportion of lending to first time buyers reduced to 21% (2003 - 23%) with 79% of new customers having a proven payment track record. The average Loan to Value ratio ("LTV") of new lending in 2004 remained similar to 2003 at around 75% and new lending below 90% LTV was 75% (2003 - 71%) of completions. The average indexed LTV of our mortgage book is now 53% (2003 - 55%) providing strong cover in the event of default. We have minimal exposure to large loans with only around 3.5% of new loans over £500,000 and we maintained an excellent geographic spread of lending.

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Lending (continued)

We offer customers a wide range of innovative and attractive products including lifestyle products and traditional price-led products. Our lifestyle products comprise our “together” family of products, Lifetime Home Equity Release Mortgages (“HERM”) and residential Buy to Let mortgages. The “together” products combine a secured and unsecured loan at one interest rate and one monthly payment. Gross lending of “together” products amounted to £4.5 billion of which £3.8 billion were advances secured on residential property representing 20.7% of new residential lending, excluding further advances. Outstanding balances of “together” mortgages remained around one fifth of our mortgage portfolio throughout 2004.

Our HERM range is aimed at homeowners aged over 60 who wish to utilise equity in their homes to enhance their lifestyle. Such lending accounted for 1.8% of gross new residential lending (2003 - 3.4%), with outstanding HERM balances representing 3.1% (2003 - 3.0%) of our year end mortgage balances.

Residential Buy to Let lending is focussed on lending to private investors secured on good quality residential properties with low LTVs. Such lending accounted for 4.0% (2003 - 2.4%) of our year end mortgage portfolio and for 6.4% (2003 - 1.7%) of gross new residential lending. This type of lending is likely to remain a niche part of our overall portfolio of lending and will be supported by demand following changes in pension legislation allowing rental properties to be included within investors’ pension plans.

In total our lifestyle products, which are margin enhancing, represented 28.9% (2003 - 30.1%) of our gross new residential lending and 25.3% (2003 - 25.4%) of year end mortgage balances.

Of our traditional price-led mortgage products, fixed-rate mortgages remained the most popular with 46.4% (2003 - 45.5%) of total new lending accounted for by short term fixed products up to two years, and 7.5% (2003 - 10.1%) by longer term fixes normally up to a maximum of seven years. This demand reflected customers’ preferences to obtain certainty of monthly repayments during a period of rising interest rates.

Our personal unsecured credit portfolios comprise the unsecured element of “together” lending and standalone unsecured loans not linked to a residential mortgage. During 2004 gross unsecured lending amounted to £2,792 million (2003 - £1,694 million) with net lending of £1,367 million (2003 - £569 million). Gross standalone unsecured lending amounted to £2,068 million (2003 - £1,130 million) with net lending of £1,104 million (2003 - £417 million). The increase in standalone unsecured lending over 2003 reflects the deliberate containment of such lending in the first half of 2003 with a return to the market in the second half of that year. At 31 December 2004 our unsecured lending balances were £4,669 million (2003 - £3,293 million) of which 40.3% (2003 - 48.7%) represented “together” unsecured advances.

We have continued to grow our commercial lending portfolio gradually, maintaining our emphasis on quality rather than volume of lending. Gross lending in the year amounted to £499 million (2003 - £409 million) with net lending of £182 million (2003 - £84 million).

The composition of our lending portfolios has continued to be low risk. At the year end 88.7% of our loans under management were residential (2003 - 89.1%), 2.9% commercial secured loans (2003 - 3.3%) and only 8.4% (2003 - 7.6%) within our personal unsecured portfolios. This mix is not expected to significantly change going forward.

Arrears and Possessions

The arrears position of our residential mortgage book has further improved despite the growth in mortgages under management. At 31 December 2004 there were 2,135 (2003 - 2,414) accounts three months or more in arrears representing only 0.37% (2003 - 0.45%) of all mortgage accounts, less than half the UK average at 30 June 2004 of 0.76%. The “together” secured advances payment performance remained consistent, with three months plus arrears stable at 0.77% at 31 December 2004 (2003 - 0.77%). At 31 December 2004, 181 properties, representing only 0.03% of all accounts, were in possession compared with 179 (0.03%) at the end of 2003.

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Arrears and Possessions (continued)

Standalone personal unsecured loan arrears are also significantly better than industry average, reflecting our policy of attracting high quality lending via our risk reward pricing. At 31 December 2004 only 1.04% of our standalone personal unsecured loans were three months or more in arrears (2003 - 0.98%) compared with an historic industry average of around 3%. Unsecured loans within the “together” brand continued to perform in line with the “together” secured advances and better than traditional personal unsecured loans with only 0.78% three months or more in arrears (2003 - 0.80%).

Our commercial loan portfolio also continued to perform well with only 0.31% of our commercial loans three months or more in arrears (2003 - 0.53%).

Retail Funding

Total retail deposit balances for the year increased by £896 million to £17,239 million (2003 - £16,343 million), an increase of 5.5%. This increase comprised a net inflow of retail funds for the year of £489 million plus interest credited of £407 million. In the second half of the year we achieved a net inflow of over £1.0 billion of retail funds, following a net outflow of £163 million in the first half, representing our best ever half year performance and clearly demonstrating the strength and diversity of our retail franchise.

The funding during the year was largely into our Silver Savings account launched in September 2004 for the over 50s which had attracted balances of over £1,250 million by the year end. Fixed rate bonds also remained popular. Balances in our Ireland based operation rose by 18.3% to £628 million, with £1,871 million (2003 - £1,875 million) in our Guernsey based off-shore vehicle.

Non-Retail Funding

Total net non-retail funding for the year amounted to £2,770 million with balances at 31 December 2004 amounting to £19,746 million (2003 - £16,976 million). Our non-retail funding provides a balanced mixture of short and medium term funding with increasing diversification of our global investor base.

During 2004 we raised £3.4 billion medium term, wholesale funds from a variety of sources located globally, with specific emphasis on the US and Europe. A major feature was the increased utilisation of our US Medium Term Note programme from which we raised US\$3.7 billion in both senior and subordinated form. Already in 2005 we have raised a further US\$1.75 billion under this programme and in the remainder of the year plan to raise further non-retail funds, including possible issuances in Asia.

With regards to short term funding, key developments include the establishment of a €2.0 billion French Certificate of Deposit programme which provides access to domestic French investors. This programme had outstanding balances of €1.1 billion at the year end. Further diversification will be achieved in the current year with the intended establishment of a Canadian Commercial Paper programme.

Securitisation

Funding through securitisation has remained an integral part of Northern Rock's funding strategy. During 2004 three issues were completed raising £11.1 billion. Diversification of our investor base continued with over 70% of the securitised bonds in 2004 being issued in US dollars or euros. The characteristics of the mortgages securitised, in terms of product type, LTV and geographic distribution remain similar to those of our on-balance sheet mortgages, ensuring that we are maintaining the quality of our balance sheet.

At 31 December 2004 assets under management subject to securitisation amounted to £22.3 billion (2003 - £15.7 billion), representing 40% (2003 - 36%) of our total lending portfolios.

In 2005 we have already launched a very well received £4.5 billion securitisation of residential mortgages. Our programmes will continue to be developed with further issues during 2005.

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Covered Bond

In the first half of 2004 we raised €2.0 billion from an inaugural covered bond issue from a newly established €10 billion programme. The covered bond is secured by a pool of ring-fenced residential mortgages which remain on-balance sheet as Northern Rock retains substantially all the risks and rewards associated with the loans.

Assets

Assets under management, including assets subject to securitisation, at 31 December 2004 amounted to £64.9 billion, an increase of 24.9% compared with £51.9 billion at 31 December 2003. The balance sheet (which shows the securitised bonds as a deduction from assets) grew by 15.3% to £42.8 billion.

Treasury

Our Treasury operation continues to raise wholesale funds, manage interest rate and currency risks, and manage a portfolio of investments primarily for liquidity purposes. It is not a separate profit centre and does not operate trading portfolios. At 31 December 2004, 96% (2003 - 97%) of our Treasury investment portfolios comprised assets which are rated single A or better. We continue to have no exposure to emerging markets or non-investment grade debt.

Total Income and Margins

Total income in 2004 amounted to £730.9 million (2003 - £659.7 million), an increase of 10.8%. The increase on a like-for-like basis excluding the 2003 surplus on the sale of our credit card portfolio of £7.3 million together with the £3.6 million contribution from credit cards prior to their sale amounted to 12.7%. The ratio of total income to mean total assets under management at 1.25% for the year remained unchanged compared with the first half of the year, having eased from an underlying 1.39% in 2003. Total income as a proportion of mean total assets at 1.83% was almost identical to the 1.84% reported in the first half of 2004 and shows only a slight reduction from the underlying ratio of 1.87% for 2003.

Group interest margin and spread are calculated by taking into account all interest recorded in the profit and loss account including that relating to securitised assets and liabilities. Similarly, average interest earning assets and liabilities include those on-balance sheet and those subject to securitisation. In 2004, interest margin and spread were 0.82% and 0.73% respectively compared with 0.85% and 0.77% in the first half of the year (2003 - 0.97% and 0.90%). During the second half of 2004 spreads on lending were stable compared with the first half, consistent with the mix of lending volumes. Throughout 2004, liability spreads were, however, adversely affected by money market rates anticipating increases in bank base rate, resulting in a net increase in our cost of funding. The differential in rates is expected to return to more normal levels in 2005 as evidenced by the reduction in money market rates towards the end of 2004.

In addition to interest income we continue to generate strong income flows from lending fees and the sale of third party insurance products, both of which are linked to growth in volumes of new lending business and enhance the profitability of loans sold.

Expenses

Total operating expenses amounted to £222.5 million representing an increase of 14.4% over 2003 underlying operating expenses of £194.5 million (excluding one off costs of £5.6 million relating to the closure of certain branches). The increase of 14.4% compares with an increase in assets under management of 24.9% and total income of 12.7% on a like-for-like basis, resulting in a cost to assets under management ratio of 0.38% (2003 underlying - 0.41%) and cost to income ratio of 30.4% (2003 underlying - 29.8%).

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Expenses (continued)

Included in 2004 operating expenses are £3.6 million incremental costs in relation to increased regulatory requirements. Excluding these additional costs the cost to assets under management ratio would have been 0.37% and the cost to income ratio 29.9%.

The full impact of additional regulatory costs, which will affect all UK banks, will amount to around £10.0 million for Northern Rock in 2005. Our competitive advantage of cost efficiency remains in place as do our targets of improving our cost ratios by growing costs at less than the rate of growth of income and between one half and two thirds the growth in assets under management.

Social Responsibility - The Northern Rock Foundation

Northern Rock donates 5% of pre tax profit to The Northern Rock Foundation under a deed of covenant. Such donations are used to support community and charitable causes mainly in the North East of England and Cumbria. A notable exception to this is the recently announced £0.5 million donation by the Foundation to support the Asian tsunami aid relief. The donation from 2004 profits amounts to £21.6 million (2003 - £19.3 million), resulting in almost £120 million having been distributed since its inception in 1997 as an integral part of Northern Rock's conversion to a plc.

Provisions

The charge for provisions for bad and doubtful debts amounted to £56.5 million for the year (2003 - £48.7 million) representing 0.18% of mean advances to customers (2003 - 0.19%). The combination of high quality lending, low interest rates, low arrears and strong house price inflation have continued to contain the levels of specific provisions required for residential mortgages. Provisions for the other secured lending portfolio have been maintained consistent with performance and expected economic conditions for this sector.

The growth in provision balances against our personal credit portfolios reflects growth in balances, the maturing nature of the portfolios and our continued prudent provisioning policy. As a result, general provisions are 47% (2003 - 51%) of total provision balances for these portfolios with total provision cover of 1.68% (2003 - 1.70%). Total provisions against our personal credit portfolios are considered appropriate given the quality and performance of our loans.

Taxation

The effective tax rate for the year was 29.0% (2003 - 29.0%). We anticipate, with a corporation tax rate of 30%, that the ongoing effective tax rate will be 29.0% to 30.0% in the medium term.

Profits and EPS

The 2003 results have been restated to reflect a change in accounting policy following the adoption of UITF 38 resulting in an increase in staff costs and a decrease in profit of £0.2 million - see note 1.

Profit before tax for the year amounted to £431.2 million (2003 restated - £386.6 million) an increase of 11.5%. On a like-for-like basis (excluding from the 2003 restated results, the £5.6 million non-recurring costs associated with the closure of certain branches, the £7.3 million surplus on the disposal of the credit card portfolio and a £3.6 million contribution prior to its sale, together with the effect on the covenant to The Northern Rock Foundation), profit before tax increased by 13.0%. On the same basis, like-for-like profit after tax increased by 13.0% to £306.2 million, with reported profit after tax increasing by 11.6%. Return on equity in 2004 was 21.3% compared with a restated underlying 21.8% in 2003.

Earnings per share was 74.1p in 2004, an increase of 11.8% compared with 2003 restated underlying earnings per share of 66.3p and an increase of 11.3% compared with 2003 restated reported earnings per share of 66.6p.

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Dividends

The interim dividend paid in October 2004 was 8.5p per share. The proposed final dividend of 18.0p per share is payable on 27 May 2005 to shareholders on the register on 29 April 2005. This results in a total dividend payable for the year of 26.5p per share (2003 - 23.3p), an increase of 13.7%.

Capital

At 31 December 2004 total capital amounted to £3,239 million resulting in a total capital ratio of 14.0%, comfortably above regulatory and internal requirements. Tier 1 capital was £2,015 million and the Tier 1 ratio 8.7%. The comparable ratios at 31 December 2003 were 14.3% and 9.0% respectively.

In the first half of 2004 we raised \$700 million (£396 million equivalent) of Upper Tier 2 capital via our US Medium Term Note programme delivering an excellent diversification of capital from the US domestic market.

During 2004 we continued to embed our Basel II credit risk systems within our normal operational activities and remain on target to adopt the Retail Internal Ratings Based approach currently anticipated to commence on 1 January 2007. Significant investment is also being made in our Operational Risk management systems and in line with the FSA's expectations for the sector we intend to initially adopt the Standardised Approach to Operational Risk. We will closely examine the next consultation paper from the FSA, expected by the end of January 2005, with a view to seeking approval for our proposed approaches as early as possible.

Our low risk balance sheet means that we expect to achieve significant reductions to the levels of our total regulatory risk weighted assets for credit exposures compared to current levels. This should result in future capital efficiencies subject to consultation with the FSA and credit rating agencies.

International Financial Reporting Standards (IFRS)

Northern Rock, in conjunction with all European Union listed institutions, is required to prepare its Annual Report and Accounts under IFRS, for accounting periods commencing on or after 1 January 2005. Consequently, our first published financial statements under IFRS will be the 2005 Interim Results. Early in the second quarter of 2005 we intend to present to investors and analysts the impact of IFRS on Northern Rock following the restatement of our 2004 financial accounts.

Under these new standards, greater volatility of profits is being introduced - but less than under US reporting, where hedge effectiveness for our fixed rate mortgages is not achieved. Whilst we will aim to minimise any such volatility our priority will be to minimise risk such that our economic hedging policies remain effective. Our risk management policies will not be driven by new accounting rules.

The overall impact on our published pre tax profits will not be large, with a likely restatement to 2004's results of under 5%. The changes will not affect cashflows, nor alter the total profit made on each product sold. Only the timing of income recognition will change. Our current policies are designed to match fees and costs of origination of mortgages, with any surplus profit amortised. The adoption of IFRS will push down income recognition in the first year of a loan and increase it later in its life. For Northern Rock this will mean a rebasing downwards of earnings per share in 2004 by somewhere in the order of 10% - 12%. At this stage, IFRS should not change our strategic targets. In the medium term, profit growth could be helped as the risk to that growth is reduced.

The impact of IFRS on regulatory capital and taxation requires further clarification. In October 2004 the FSA issued a Consultation Paper proposing to minimise the effect of IFRS on regulatory capital. The consultation period ends on 31 January 2005. The taxation treatment of IFRS accounting policies and adjustments remains under review by the Inland Revenue.

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Outlook

The home moving market is expected to continue to remain at similar levels to 2004, at the lower end of longer term trends, for at least the next two years. Many first time buyers will continue to be excluded from the market as a result of higher house prices, the competition with Buy to Let investors for traditional first time buyer properties, especially in urban areas and higher levels of indebtedness linked to the funding of higher education. In conjunction with subdued levels of house moving transactions we expect to see muted house price inflation with some price falls in areas that have seen excessive growth. We expect, however, given low unemployment, low interest rates and good affordability, house prices to be growing in line with average earnings by the end of 2005.

The UK's gross residential mortgage market, supported by remortgage activity, is anticipated to be £265 billion to £270 billion in 2005 and 2006 compared with over £290 billion in 2004. Such levels of gross lending remain conducive to Northern Rock achieving its lending targets for 2005.

A slower housing market, reduced inflationary pressures and a dampening in retail sales mean that the prospects for rising interest rates are significantly lower than in mid 2004, as a consequence the difference between LIBOR and Bank Base Rate is expected to return to more normal levels in 2005. Unemployment, the key driver of credit loss on home loans, looks set to remain benign giving a stable outlook for future provisioning levels.

These conditions, together with our continued focus on customer service, cost and capital efficiency and the strength of our opening pipeline enable us to view 2005 with confidence. We reaffirm our strategic targets of assets under management growth of 20% + / - 5%, profit growth of 15% + / - 5% and return on equity of 19% to 22%.

Our growth will continue to be supported by our four funding arms; retail, non-retail, securitisation and covered bonds. We intend to develop further each franchise in terms of flexibility and diversification to enhance our overall funding platform and investor base.

We remain confident of the continued success of the Northern Rock business model.

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FINANCIAL HIGHLIGHTS

Key Performance Figures	Note (Page 10)	2004	2003		
		£m	(Restated) £m		
Gross lending		23,342	17,315		
Net lending		12,932	8,514		
Net retail funding		896	1,007		
Securitisation issues		11,122	7,730		
Covered bond issue		1,341	-		
Net non-retail funding		2,770	3,317		
Key Ratios – Balance Sheet		%	%		
Growth in assets under management	4,5	24.9	24.0		
Balance sheet growth	4	15.3	13.8		
Growth in risk weighted assets		17.3	14.2		
Total capital ratio		14.0	14.3		
Tier 1 ratio		8.7	9.0		
Key Ratios – Profit and Loss		<u>Underlying</u>	<u>Reported</u>	<u>Underlying</u>	<u>Reported</u>
		(Restated)	(Restated)	(Restated)	(Restated)
		%	%	%	%
Total income : mean balance sheet assets		1.83	1.83	1.87	1.89
Total income : mean assets under management		1.25	1.25	1.39	1.41
Interest margin		0.82	0.82	0.97	0.97
Interest spread		0.73	0.73	0.90	0.90
Cost to income ratio		30.4	30.4	29.8	30.3
Cost to asset ratio		0.56	0.56	0.56	0.57
Cost to assets under management ratio		0.38	0.38	0.41	0.43
Provision charge as % of mean advances to customers		0.18	0.18	0.19	0.19
Pre tax profit growth		12.0	11.5	18.3	18.8
Pre tax profit growth (like-for-like)	3	13.0	12.5	n/a	n/a
Effective tax rate		29.0	29.0	29.0	29.0
Post tax profit growth		12.0	11.6	19.4	19.9
Post tax profit growth (like-for-like)	3	13.0	12.6	n/a	n/a
Post tax return on mean equity		21.3	21.3	21.8	21.9
Post tax return on mean assets		0.77	0.77	0.78	0.79
Post tax return on mean assets under management		0.52	0.52	0.58	0.58
Shareholder Information		<u>p/share</u>	<u>p/share</u>	<u>p/share</u>	<u>p/share</u>
Earnings per share		74.1	74.1	66.3	66.6
Fully diluted earnings per share		73.5	73.5	65.7	66.0
Dividend per share		26.5	26.5	23.3	23.3

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FINANCIAL HIGHLIGHTS (Continued)

Notes

- 1 2003 ratios have been restated, where necessary, following the introduction of UITF Abstract 38 – Accounting for ESOP Trusts (see note 1).
- 2 Underlying ratios in 2003 exclude the effects of the £7.3 million surplus on disposal of the credit card portfolio and the £5.6 million non-recurring costs associated with the closure of certain branches, together with the effect on the covenant to The Northern Rock Foundation. A reconciliation of reported and underlying profits for 2003 is set out in note 9.
- 3 Profit growth (like-for-like) for the year ended 31 December 2004 represents the growth over underlying and reported profit for the year ended 31 December 2003 (see note 9) excluding the £3.6 million contribution to profit from the credit card portfolio prior to its disposal on 30 May 2003 (see note 10), adjusted for the effect of the covenant to The Northern Rock Foundation.
- 4 Asset growth in 2004 represents the growth of assets under management and balance sheet assets between 31 December 2003 and 31 December 2004.
- 5 Assets under management are defined as total balance sheet assets plus non-recourse finance.

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FINANCIAL INFORMATION

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<u>Note</u>	<u>2004</u> <u>(Unaudited)</u>	<u>2003</u> <u>(Audited)</u> <u>(Restated)</u>
		<u>£m</u>	<u>£m</u>
Interest receivable			
Interest receivable and similar income arising from debt securities		205.7	159.1
Other interest receivable and similar income		1,760.3	1,279.9
Securitisation interest receivable		998.5	696.0
Securitisation interest payable		(953.9)	(538.3)
		<hr/> 2,010.6	<hr/> 1,596.7
Interest payable		(1,568.6)	(1,164.8)
Income from equity shares and variable yield securities		24.9	18.8
Net interest income	3	<hr/> 466.9	<hr/> 450.7
Fees and commissions receivable		292.6	216.9
Fees and commissions payable		(60.1)	(43.1)
Other operating income		31.5	27.9
Surplus on sale of credit card portfolio		-	7.3
Net non-interest income	5	<hr/> 264.0	<hr/> 209.0
Total income	2	<hr/> 730.9	<hr/> 659.7
Administrative expenses			
operating		(203.5)	(178.0)
non-recurring		-	(5.6)
covenant to The Northern Rock Foundation		(21.6)	(19.3)
Total administrative expenses		<hr/> (225.1)	<hr/> (202.9)
Depreciation and amortisation			
tangible fixed assets		(19.0)	(16.5)
goodwill		(3.6)	(3.6)
Total depreciation and amortisation		<hr/> (22.6)	<hr/> (20.1)
Operating expenses	6	<hr/> (247.7)	<hr/> (223.0)
Provisions for bad and doubtful debts	7	(56.5)	(48.7)
Provisions against fixed asset investments		4.5	(1.4)
Profit on ordinary activities before tax		<hr/> 431.2	<hr/> 386.6
Tax on profit on ordinary activities		(125.0)	(112.2)
Profit on ordinary activities after tax		<hr/> 306.2	<hr/> 274.4
Dividends		(110.0)	(96.3)
Profit retained for the period		<hr/> 196.2	<hr/> 178.1
Earnings per share	11	74.1p	66.6p
Underlying earnings per share	11	74.1p	66.3p
Fully diluted earnings per share	11	73.5p	66.0p
Underlying fully diluted earnings per share	11	73.5p	65.7p

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CONSOLIDATED BALANCE SHEET

	<u>Note</u>	31 December 2004 (Unaudited)	31 December 2003 (Audited) (Restated)
		<u>£m</u>	<u>£m</u>
Assets			
Cash and balances at central banks		10.2	11.6
Loans and advances to banks		3,305.4	3,450.2
Loans and advances to customers not subject to securitisation		32,869.3	27,355.8
Loans and advances to customers subject to securitisation	14	22,339.2	15,678.7
Less: non-recourse finance	14	(22,103.7)	(14,832.4)
	13	33,104.8	28,202.1
Debt securities		4,742.2	4,185.5
Equity shares and other variable yield securities		575.6	410.8
Intangible fixed assets		27.1	30.7
Tangible fixed assets		208.2	179.1
Other assets		69.6	76.6
Prepayments and accrued income		746.9	564.8
Total assets		42,790.0	37,111.4
Liabilities			
Deposits by banks		1,201.6	1,461.5
Customer accounts	16	20,342.0	18,797.3
Debt securities in issue		16,781.6	13,060.1
Other liabilities		335.6	338.8
Accruals and deferred income		539.8	475.3
Provisions for liabilities and charges		31.8	19.0
Subordinated liabilities		1,515.7	1,119.5
Reserve capital instruments		300.0	300.0
Tier one notes		200.0	200.0
Total subordinated liabilities		2,015.7	1,619.5
Called up share capital		123.9	123.9
Share premium account		6.8	6.8
Capital redemption reserve		7.3	7.3
Profit and loss account	17	1,403.9	1,201.9
Shareholders' funds – equity		1,541.9	1,339.9
Total liabilities		42,790.0	37,111.4
Non-recourse finance		22,103.7	14,832.4
Assets under management		64,893.7	51,943.8

NORTHERN ROCK GROUP ANNUAL RESULTS

CONSOLIDATED CASHFLOW STATEMENT

	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>	<u>2003</u> <u>(Audited)</u> <u>£m</u>
Net cash inflow from operating activities (note 20)	33.2	845.8
Returns on investments and servicing of finance	(111.0)	(86.9)
Taxation	(106.0)	(96.0)
Capital expenditure and financial investment	(817.5)	(419.5)
Acquisitions and disposals	-	217.0
Equity dividends paid	(100.6)	(87.6)
Net cash (outflow)/inflow before financing	(1,101.9)	372.8
Financing	396.1	-
(Decrease)/increase in cash	(705.8)	372.8

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>	<u>2003</u> <u>(Audited)</u> <u>(Restated)</u> <u>£m</u>
Profit retained	196.2	178.1
Opening shareholders' funds – as previously reported	1,339.9	1,209.6
Prior year adjustment – UITF 38 (note 1)		
Reduction in shareholders' funds prior to 1 January 2003	-	(44.5)
Movement in relation to own shares	-	(3.3)
Movement in relation to own shares	5.8	-
Closing shareholders' funds	1,541.9	1,339.9

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>	<u>2003</u> <u>(Audited)</u> <u>(Restated)</u> <u>£m</u>
Profit retained	196.2	178.1
Total recognised gains and losses for the period	196.2	178.1
Prior year adjustment – UITF 38 (note 1)	0.3	-
Total gains and losses recognised since the last annual accounts	196.5	178.1

NORTHERN ROCK GROUP ANNUAL RESULTS

NOTES TO THE RESULTS

1. Change in Accounting Policy

The Group has implemented the requirements of Urgent Issues Task Force (“UITF”) Abstract 38 – “Accounting for ESOP Trusts” with effect from 1 January 2004. As a result, holdings of Ordinary shares in Northern Rock plc owned by the Group’s employee share ownership trusts are now shown as a deduction from shareholders’ funds. Previously they were shown as part of other assets in the balance sheet. Purchases and sales of Northern Rock plc Ordinary shares are now accounted for as movements in shareholders’ funds and no gains and losses are reflected in the Profit and Loss account. The charge to the Profit and Loss account in respect of shares and share options granted to employees that are expected to be met from shares held by employee share trusts is now based on the difference between the value on the date of grant and the exercise price. Previously, where shares were purchased to meet these obligations, the charge was based on the carrying value of the shares.

The effect of this change in accounting policy, which has been accounted for as a prior year adjustment, is to increase staff costs and decrease profit for the year ended 31 December 2004 by £0.1 million (year to 31 December 2003 - £0.2 million). The effect on other assets, other liabilities, staff costs and shareholders’ funds at the balance sheet dates is as follows:

	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>	<u>2003</u> <u>(Audited)</u> <u>£m</u>
Reduction in shareholders’ funds – beginning of period (note 17)	(48.0)	(44.5)
Movement in relation to own shares (note 18)	5.8	(3.3)
Increase in staff costs during period	(0.1)	(0.2)
Reduction in shareholders’ funds – end of period	<u>(42.3)</u>	<u>(48.0)</u>
The reduction in shareholders’ funds comprises:		
Reduction in other assets	(42.3)	(48.8)
Reduction in other liabilities	-	0.8
	<u>(42.3)</u>	<u>(48.0)</u>

The cumulative difference in the amount credited through the profit and loss account in the period up to 31 December 2003 amounted to £0.3 million.

NORTHERN ROCK GROUP ANNUAL RESULTS

2. Total Income

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Net interest income	466.9	450.7
Other income	264.0	209.0
Total income	730.9	659.7
Mean total assets	39,950.7	34,865.7
Mean assets under management	58,418.8	46,909.2
Total income : mean total assets	1.83%	1.89%
Total income : mean total assets (underlying)	1.83%	1.87%
Total income : mean assets under management	1.25%	1.41%
Total income : mean assets under management (underlying)	1.25%	1.39%

The above underlying ratios for 2003 exclude the £7.3 million profit on sale of the credit card portfolio (see note 10).

3. Interest Spread and Margin

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Interest receivable	2,989.4	2,153.8
Interest payable	(2,522.5)	(1,703.1)
Net interest income	466.9	450.7
Average balances		
Interest bearing assets	57,071.3	46,435.1
Interest bearing liabilities	55,957.2	45,570.6
Interest margin	0.82%	0.97%
Interest spread	0.73%	0.90%

Interest receivable and payable represent amounts reported in the Profit and Loss account, adjusted to transfer securitisation interest payable to interest payable, and include income from equity shares and other variable yield securities in interest receivable. Interest bearing assets and liabilities have been adjusted for securitised assets and non-recourse finance and interest bearing assets include equity shares and other variable yield securities.

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.

NORTHERN ROCK GROUP ANNUAL RESULTS

4. Deferred Mortgage Incentive Costs

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

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Balance Sheet:		
Opening balance	236.9	257.5
Additions	482.5	327.1
Amortisation	(440.1)	(347.7)
Closing balance	<u>279.3</u>	<u>236.9</u>
Profit and Loss account:		
Amortisation	430.0	340.7
Current year immediate write off	10.1	7.0
	<u>440.1</u>	<u>347.7</u>

5. Other Income

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Commissions	80.1	67.8
Fees (net of service charges)	152.4	106.0
Subsidiaries and others	31.5	27.9
	<u>264.0</u>	<u>201.7</u>
Surplus on sale of credit card portfolio	-	7.3
	<u>264.0</u>	<u>209.0</u>

6. Operating Expenses

Operating expenses excluding the covenant to The Northern Rock Foundation and amortisation of goodwill are as follows:

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>(Restated)</u> <u>£m</u>
Staff costs	119.3	101.0
Other expenses	84.2	77.0
Depreciation	19.0	16.5
Total recurring expenses	<u>222.5</u>	<u>194.5</u>
Non-recurring costs	-	5.6
Total operating expenses	<u>222.5</u>	<u>200.1</u>

Non-recurring costs in 2003 represent costs incurred in relation to the closure of certain branches.

NORTHERN ROCK GROUP ANNUAL RESULTS

6. Operating Expenses (continued)

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

	<u>2004</u>	<u>2003</u>
Full time	3,916	3,448
Part time	1,064	952

7. Provision for Losses on Loans and Advances

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Provision charge:		
Specific		
Secured on residential property	4.1	4.1
Other secured	0.2	1.4
Unsecured	40.0	23.4
	44.3	28.9
General		
Secured on residential property	1.4	9.5
Other secured	2.5	0.3
Unsecured	8.3	10.0
	12.2	19.8
Total provision charge	56.5	48.7
 % of mean advances to customers	 0.18%	 0.19%

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Provision balance:		
Specific		
Secured on residential property	3.4	3.1
Other secured	1.0	1.9
Unsecured	41.4	27.4
Total	45.8	32.4
General		
Secured on residential property	32.9	31.7
Other secured	11.2	8.7
Unsecured	37.0	28.5
Total	81.1	68.9
Total provision balance	126.9	101.3
 % of period end advances to customers	 0.37%	 0.36%

NORTHERN ROCK GROUP ANNUAL RESULTS

8. Residential Mortgage Arrears

	<u>2004</u>		<u>2003</u>	
	Cases	%	Cases	%
3 – 6 months	1,695	0.29	1,674	0.31
Over 6 – 12 months	422	0.07	634	0.12
Over 12 months	18	0.01	106	0.02
Total	2,135	0.37	2,414	0.45

9. Underlying Results

A reconciliation of reported and underlying profit before and after tax is set out in the following table:

	<u>2004</u>	<u>2003</u>
	<u>£m</u>	<u>(Restated)</u>
		<u>£m</u>
Reported profit before tax (page 11)	431.2	386.6
Surplus on disposal of credit card portfolio (note 10)	-	(7.3)
Non-recurring costs (note 6)	-	5.6
Covenant to The Northern Rock Foundation	-	0.1
Underlying profit before tax	431.2	385.0
Reported profit after tax (page 11)	306.2	274.4
Surplus on disposal of credit card portfolio (note 10)	-	(7.3)
Non-recurring costs (note 6)	-	5.6
Covenant to The Northern Rock Foundation	-	0.1
Tax effect	-	0.5
Underlying profit after tax	306.2	273.3

10. Like-for-Like Results

On 30 May 2003, the Group sold its credit card portfolio to The Co-operative Bank. The surplus on sale amounted to £7.3 million and is recorded in other income. Included in the reported results for the year ended 31 December 2003 is profit before tax of £3.6 million and profit after tax of £2.6 million in relation to the credit card portfolio to the date of sale. This profit is excluded from like-for-like profit as follows:

	<u>2003</u>
	<u>£m</u>
Underlying profit before tax (note 9)	385.0
Credit card contribution	(3.6)
Covenant to The Northern Rock Foundation	0.2
Like-for-like profit before tax	381.6
Underlying profit after tax (note 9)	273.3
Credit card contribution	(3.6)
Covenant to The Northern Rock Foundation	0.2
Tax effect	1.0
Like-for-like profit after tax	270.9

NORTHERN ROCK GROUP ANNUAL RESULTS

11. Earnings per Share

Earnings per share figures based upon reported (basic) and underlying profit after tax are as follows:

	<u>2004</u>	<u>2003</u> <u>(Restated)</u>
Weighted average number of shares in issue	413.0m	412.3m
Basic EPS	74.1p	66.6p
Underlying EPS	74.1p	66.3p

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	416.6m	415.9m
Fully diluted EPS	73.5p	66.0p
Underlying fully diluted EPS	73.5p	65.7p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 3.6 million (31 December 2003 - 3.6 million) potentially dilutive Ordinary shares resulting from options granted under employee share schemes.

Foundation shares held by The Northern Rock Foundation have been excluded from the EPS calculations as they carry no rights to dividends. The Foundation shares can convert into Ordinary shares only under specified circumstances which are considered to be remote. If conversion were to take place the shares would rank for dividend but the covenant to the Foundation would cease.

12. Mortgage Lending

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

	<u>2004</u> <u>%</u>	<u>2003</u> <u>%</u>
Type of lending		
Fixed rate (long term - over 2 years)	8	10
Fixed rate (short term - up to and including 2 years)	46	46
Discount	16	13
Cashback	1	1
Together	21	25
HERM	2	3
Buy to Let	6	2
Type of customer		
First time buyer	21	23
Next time buyer	38	35
Remortgage	35	40
Buy to Let	6	2
Geographic spread		
North	15	15
Scotland	10	9
Midlands	24	24
South	51	52

NORTHERN ROCK GROUP ANNUAL RESULTS

13. Loans and Advances to Customers

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Advances secured on residential property not subject to securitisation	27,000.7	23,179.7
Advances secured on residential property subject to securitisation	22,048.4	15,229.4
Total advances secured on residential property	49,049.1	38,409.1
Other secured advances not subject to securitisation	1,278.1	939.5
Other secured advances subject to securitisation	290.8	449.3
Total other secured advances	1,568.9	1,388.8
Unsecured loans	4,590.5	3,236.6
	55,208.5	43,034.5
Less: non-recourse finance	(22,103.7)	(14,832.4)
	33,104.8	28,202.1

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14. 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. The balances of assets subject to securitisation and non-recourse finance at 31 December 2004 are as follows:

Securitisation company	Date of securitisation	Gross assets securitised £m	Non-recourse finance £m	Subordinated loans made by the Group £m
Residential:				
Granite Mortgages 99-1 plc	1 October 1999	105.0	95.3	-
Granite Mortgages 00-1 plc	1 March 2000	280.1	267.0	-
Granite Mortgages 00-2 plc	25 September 2000	576.4	512.2	4.4
Granite Mortgages 01-1 plc	26 March 2001	867.3	848.6	5.4
Granite Mortgages 01-2 plc	28 September 2001	963.6	934.0	9.9
Granite Mortgages 02-1 plc	20 March 2002	1,664.5	1,634.6	28.0
Granite Mortgages 02-2 plc	23 September 2002	2,032.3	1,997.3	26.0
Granite Mortgages 03-1 plc	27 January 2003	2,262.7	2,246.1	29.5
Granite Mortgages 03-2 plc	21 May 2003	1,931.7	1,881.5	24.5
Granite Mortgages 03-3 plc	24 September 2003	1,823.1	1,768.9	17.5
Granite Mortgages 04-1 plc	28 January 2004	2,928.1	2,827.0	49.4
Granite Mortgages 04-2 plc	26 May 2004	3,297.0	3,213.0	64.1
Granite Mortgages 04-3 plc	22 September 2004	3,885.7	3,786.8	49.4
		22,617.5	22,012.3	308.1
Retained interest in Granite Trustees Limited		826.9	-	-
Less cash deposits held with Northern Rock plc		(1,396.0)	-	-
Total residential		22,048.4	22,012.3	308.1
Commercial:				
Dolerite Funding No 1 plc	24 June 2002	238.5	216.4	19.1
Retained interest in Dolerite Trustees Limited		52.3	-	-
Total commercial		290.8	216.4	19.1
Maximum extent of insurance cover provided by subsidiary			(125.0)	
Total		22,339.2	22,103.7	327.2

No subordinated debt was issued by Granite Mortgages 01-1 plc to Northern Rock plc in relation to the funding of a first loss reserve fund. However, Granite Mortgages 01-1 plc's parent company retained £20 million from the proceeds of debt issuance to fund this reserve, which is only repayable after full repayment of the notes.

Interest income earned by Northern Rock in respect of the retained interest in Granite Trustees Limited and Dolerite Trustees Limited is recorded in the Profit and Loss account within other interest receivable and similar income.

At 31 December 2004 the special purpose companies had cash deposits with Northern Rock plc amounting to £1,396.0 million. At 31 December 2003 such deposits were held by other third party banks. As such the total gross assets securitised available to meet non-recourse finance amount to £23,735.2 million (2003 - £15,678.7 million).

NORTHERN ROCK GROUP ANNUAL RESULTS

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

Northern Rock plc does not own directly, or indirectly, any of the share capital of any of the above securitisation companies. A summary Profit and Loss account for the above securitisation companies is set out below:

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Interest receivable	998.5	696.0
Interest payable	(953.9)	(538.3)
Interest receivable on cash deposits with Northern Rock	46.9	-
Fixed rate swaps payable to Northern Rock	(1.7)	(65.4)
Other swaps and net interest payable to Northern Rock	31.4	(34.7)
Net interest receivable	121.2	57.6
Other income net of administrative and other expenses payable to third parties	19.8	9.0
Administrative and other expenses payable to Northern Rock	(141.0)	(66.6)
Result for the financial period	-	-

15. Covered Bond

Included within loans and advances to customers not subject to securitisation are £1,978 million of mortgage advances assigned to a bankruptcy remote special purpose vehicle. These loans provide security to an issue of covered bonds of €2.0 billion (£1,341 million equivalent) made by Northern Rock on 4 May 2004, which are included within debt securities in issue. Northern Rock retains substantially all the risks and rewards associated with these loans and therefore this transaction does not qualify for linked presentation or sale treatment.

16. Analysis of Customer Accounts

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Branch accounts	3,051.3	2,437.2
Postal accounts	7,536.3	6,230.8
Internet accounts	2,503.4	2,891.4
Offshore accounts	2,499.4	2,405.9
Telephone accounts	895.9	1,339.8
Legal & General branded accounts	752.2	1,037.7
Total retail balances	17,238.5	16,342.8
Other customer accounts	3,103.5	2,454.5
	20,342.0	18,797.3

NORTHERN ROCK GROUP ANNUAL RESULTS

17. Profit and Loss Account

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
At 1 January as previously reported	1,201.9	1,071.6
Prior year adjustment (note 1)	-	(44.5)
At 1 January restated	<u>1,201.9</u>	<u>1,027.1</u>
Movements in relation to own shares (note 18)	5.8	(3.3)
Profit for the financial period	196.2	178.1
	<u>1,403.9</u>	<u>1,201.9</u>

18. Own Shares

The amounts deducted from the profit and loss reserve in respect of own shares, which are held at cost, are as follows:

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Own shares in relation to employee share schemes	<u>55.3</u>	<u>58.2</u>

Movements in the amount deducted from reserves in respect of own shares have been as follows:

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
At 1 January	58.2	53.9
Purchases of shares	6.0	15.5
Use of shares on exercise of employee options and for other employee share plans	(8.9)	(11.2)
	<u>(2.9)</u>	<u>4.3</u>
	<u>55.3</u>	<u>58.2</u>

The credit/(charge) to the Group's Profit and Loss account reserve have been as follows:

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>£m</u>
Surplus on transactions in own shares	2.9	1.0
Net decrease/(increase) in cost of own shares	2.9	(4.3)
	<u>5.8</u>	<u>(3.3)</u>

NORTHERN ROCK GROUP ANNUAL RESULTS

19. Capital Structure

	<u>2004</u> <u>£m</u>	<u>2003</u> <u>(Restated)</u> <u>£m</u>
Tier 1		
Share capital	123.9	123.9
Share premium account	6.8	6.8
Capital redemption reserve	7.3	7.3
Profit and loss account	1,403.9	1,201.9
Reserve capital instruments	300.0	266.3
Tier one notes	200.0	200.0
Goodwill	(27.1)	(30.7)
Total Tier 1 capital	2,014.8	1,775.5
Upper Tier 2		
Perpetual subordinated debt	746.4	350.3
Reserve capital instruments	-	33.7
General provisions	83.1	75.4
Total Upper Tier 2 capital	829.5	459.4
Lower Tier 2		
Term subordinated debt	769.3	769.2
Total Tier 2 capital	1,598.8	1,228.6
Deductions	(374.7)	(190.5)
Total capital	3,238.9	2,813.6
Risk weighted assets	23,099.2	19,690.5
Tier 1 ratio	8.7%	9.0%
Total capital	14.0%	14.3%

NORTHERN ROCK GROUP ANNUAL RESULTS

20. Reconciliation of Operating Profit to Net Operating Cash Flows

	<u>2004</u>	<u>2003</u>
	<u>£m</u>	<u>(Restated)</u>
		<u>£m</u>
Operating profit	431.2	386.6
(Increase)/decrease in prepayments and accrued income	(182.1)	37.9
Increase in accruals and deferred income	57.2	28.1
Provision for bad and doubtful debts	56.5	48.7
Loans and advances written off net of recoveries	(30.9)	(30.3)
Depreciation and amortisation	22.6	20.1
Interest on subordinated liabilities	85.5	62.0
Interest on reserve capital instruments	19.8	17.3
Interest on tier one notes	13.0	11.4
Other non-cash movements	9.6	14.7
Net cash inflow from trading activities	482.4	596.5
Net increase in loans and advances to banks and customers	(12,813.8)	(9,631.9)
Net increase in deposits by banks and customer accounts	1,369.1	1,147.7
Net increase in debt securities in issue	11,007.3	8,794.5
Net decrease in other assets	7.0	2.6
Net decrease in other liabilities	(18.8)	(63.6)
Net cash inflow from operating activities	33.2	845.8

21. Basis of Preparation

Other than the changes set out in note 1, accounting policies and methods remain unchanged from those used in the preparation of the 2003 annual accounts.

22. Dividends

Ex dividend date	27 April 2005
Record date	29 April 2005
Payment date	27 May 2005

23. Interim Results

Northern Rock intends to report its 2005 Interim Results on 28 July 2005 and not 20 July 2005 as previously announced.

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24. 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 2003 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 27 January 2005. The report is also available on the Northern Rock website www.northernrock.co.uk from 8.30am on 26 January 2005.

A presentation of the results will be given by directors on the morning of the results announcement. A web cast of the presentation will be available on the Northern Rock website from 3.00pm on 26 January 2005.

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This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to certain of the plans of Northern Rock, its current goals and expectations relating to its future financial condition and performance. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Northern Rock's actual future results may differ materially from the results expressed or implied in these forward-looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, market related risk such as interest rates and exchange rates, delays in implementing proposals, unexpected difficulties with computer systems, unexpected changes to regulation, changes in customer preferences, competition and other factors. Please refer to the most recently filed Annual Report on Form 20-F of Northern Rock filed with the US Securities and Exchange Commission for a discussion of such factors.