

**NORTHERN ROCK PLC**  
**INTERIM RESULTS**  
**6 MONTHS ENDED 30 JUNE 2005**  
  
**PROFORMA INFORMATION**

In order to aid comparability of the 2005 results with those of 2004, the following pages show the 2004 results on a proforma basis, incorporating to the extent described in detail on page 85, the impact of IFRS. The proforma results include the impacts of changes to accounting rules relating to effective interest rate and the reclassification of certain financial instruments from debt to equity.

The 2005 statutory results include the full effects of the introduction of fair value and hedge accounting following the introduction of IAS 32 and IAS 39 with effect from 1 January 2005. Certain elements of the results for 2005 are also presented excluding the effects of fair value volatility and hedge ineffectiveness to provide a clearer representation of the underlying performance of the Group.

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# NORTHERN ROCK GROUP INTERIM RESULTS

## FINANCIAL HIGHLIGHTS - PROFORMA

Key Performance Figures	Six months to 30 June			Full Year
	2005		2004	2004
	Proforma £m	Underlying £m	Proforma £m	Proforma £m
Gross lending	11,543	11,543	10,055	23,342
Net lending	5,965	5,965	5,091	12,932
Net retail funding	1,716	1,716	(163)	896
Securitisation issues	8,558	8,558	7,122	11,122
Covered bond issue	1,025	1,025	1,341	1,341
Net non-retail funding	(2,245)	(2,245)	(1,916)	2,770
<b>Key Ratios – Balance Sheet</b>	%	%	%	%
Balance sheet growth	12.0	10.0	9.9	24.9
Growth in risk weighted assets	4.0	4.0	2.3	17.1
Total capital ratio	12.8	12.8	15.4	13.5
Tier 1 ratio	8.2	8.2	8.6	8.0
<b>Key Ratios – Income and Expense</b>	%	%	%	%
Total income : mean risk weighted assets	3.62	3.41	3.56	3.43
Interest margin	1.07	1.00	1.12	1.07
Cost to income ratio	28.3	30.1	28.8	29.9
Cost to mean asset ratio	0.35	0.35	0.37	0.37
Impairment charge as % of mean advances to customers	0.09	0.09	0.12	0.10
Pre tax profit growth	39.2	13.3	n/a	n/a
Effective tax rate	29.3	29.3	29.0	28.9
Post tax profit growth	38.6	12.7	n/a	n/a
Attributable profit growth	39.3	10.6	n/a	n/a
Post tax return on mean equity	25.9	20.6	21.6	20.9
Post tax return on mean risk weighted assets	1.62	1.29	1.37	1.29
Post tax return on mean assets	0.55	0.44	0.50	0.47
<b>Shareholder Information</b>	<b>p/share</b>	<b>p/share</b>	<b>p/share</b>	<b>p/share</b>
Earnings per share	45.5	36.1	32.7	65.7
Growth in earnings per share (%)	39.1	10.4	n/a	n/a
Dividend per share	18.0	18.0	15.8	24.3
Growth in dividend per share (%)	13.9	13.9	15.3	14.6

## NORTHERN ROCK GROUP INTERIM RESULTS

### Notes

1. 2005 underlying ratios are based upon underlying results (note 2), underlying total income (note 3) and underlying net interest income (note 4).
2. 2004 ratios have been restated to reflect the impact of IFRS. Profit growth ratios for 2004 have not been calculated as 2003 results have not been restated under IFRS.
3. Balance sheet growth in 2005 represents the growth in balance sheet assets between 31 December 2004 and 30 June 2005. Underlying balance sheet growth excludes the impact of fair value adjustments.
4. Post tax returns are calculated by reference to profit attributable to equity shareholders.

# NORTHERN ROCK GROUP INTERIM RESULTS

## FINANCIAL INFORMATION

### PROFORMA CONSOLIDATED INCOME STATEMENT

	<u>Note</u>	Six months to 30 June		Full Year
		<u>2005</u>	<u>2004</u>	<u>2004</u>
		(Unaudited)	(Unaudited)	(Unaudited)
		<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Interest and similar income</b>		1,939.2	1,346.4	3,074.3
<b>Interest expense and similar charges</b>		(1,569.9)	(1,047.1)	(2,461.6)
<b>Net interest income</b>	4	<u>369.3</u>	<u>299.3</u>	<u>612.7</u>
Fee and commission income		63.4	57.5	127.7
Fee and commission expense		(13.5)	(8.0)	(17.1)
Other operating income		0.6	0.9	1.2
		<u>50.5</u>	<u>50.4</u>	<u>111.8</u>
<b>Total income</b>	3	<u>419.8</u>	<u>349.7</u>	<u>724.5</u>
Administrative expenses		(104.6)	(93.0)	(198.7)
Depreciation and amortisation		(14.3)	(7.8)	(18.2)
Covenant to The Northern Rock Foundation		(14.7)	(10.5)	(22.1)
Operating expenses	6	(133.6)	(111.3)	(239.0)
Impairment losses on loans and advances	8	(25.5)	(26.5)	(48.5)
Impairment of fixed asset investments		-	(0.7)	4.5
Net hedge ineffectiveness and other unrealised fair value gains and losses	5	33.3	-	-
<b>Profit before taxation</b>		<u>294.0</u>	<u>211.2</u>	<u>441.5</u>
Income tax expense		(86.1)	(61.2)	(127.7)
<b>Profit for the period</b>		<u>207.9</u>	<u>150.0</u>	<u>313.8</u>
Represented by:				
Appropriations		19.7	14.9	42.6
Profit for the period attributable to equity shareholders		188.2	135.1	271.2
<b>Total</b>		<u>207.9</u>	<u>150.0</u>	<u>313.8</u>
Earnings per share	11			
Basic earnings per share				
Proforma		45.5p	32.7p	65.7p
Underlying		36.1p	32.7p	65.7p
Diluted earnings per share				
Proforma		45.1p	32.5p	65.1p
Underlying		35.8p	32.5p	65.1p

Details of dividends are set out in note 10.

# NORTHERN ROCK GROUP INTERIM RESULTS

## PROFORMA CONSOLIDATED BALANCE SHEET

	<u>Note</u>	<b>30 June 2005 (Unaudited) £m</b>	<b>30 June 2004 (Unaudited) £m</b>	<b>31 December 2004 (Unaudited) £m</b>
<b>Assets</b>				
Cash and balances at central banks		70.7	56.9	65.3
Derivative financial instruments		911.5	-	-
Loans and advances to banks		3,716.6	4,343.1	3,674.2
Loans and advances to customers	13	61,660.4	47,100.4	54,967.6
Available for sale securities				
Investment securities		5,623.0	-	-
Debt securities		-	4,320.7	4,742.2
Equity shares and other variable yield securities		-	500.7	575.6
Intangible assets		76.4	67.6	73.1
Property, plant and equipment		174.9	165.8	170.5
Deferred income tax asset		74.5	68.7	77.9
Other assets		50.6	62.7	78.2
Prepayments and accrued income		101.0	249.2	285.9
<b>Total assets</b>		<b>72,459.6</b>	<b>56,935.8</b>	<b>64,710.5</b>
<b>Liabilities</b>				
Deposits by banks		1,471.3	1,586.5	1,201.6
Customers accounts	16	21,497.8	18,770.1	20,393.7
Derivative financial instruments		1,390.2	-	-
Debt securities in issue				
Securitised notes	14	27,705.5	20,282.5	22,089.9
Covered bonds	15	2,430.2	1,339.0	1,339.0
Other		13,558.5	10,935.6	15,435.3
Other liabilities		113.7	87.5	76.6
Current taxation liabilities		83.4	57.7	60.0
Accruals and deferred income		592.6	525.0	657.3
Provisions for liabilities and charges		54.1	48.5	52.5
Subordinated liabilities		790.2	769.3	769.3
Reserve capital instruments		-	-	-
Tier one notes		219.8	200.0	200.0
		<b>69,907.3</b>	<b>54,601.7</b>	<b>62,275.2</b>
<b>Equity</b>				
<b>Shareholders' funds</b>				
Called up share capital		123.9	123.9	123.9
Share premium account		6.8	6.8	6.8
Capital redemption reserve		7.3	7.3	7.3
Other reserves	18	35.7	-	(2.0)
Retained earnings		1,342.8	1,149.7	1,252.9
<b>Total equity attributable to equity shareholders</b>		<b>1,516.5</b>	<b>1,287.7</b>	<b>1,388.9</b>
<b>Non shareholders' funds</b>				
Reserve capital instruments		299.3	300.0	300.0
Subordinated notes		736.5	746.4	746.4
<b>Total non shareholders' funds</b>		<b>1,035.8</b>	<b>1,046.4</b>	<b>1,046.4</b>
<b>Total equity</b>		<b>2,552.3</b>	<b>2,334.1</b>	<b>2,435.3</b>
<b>Total equity and liabilities</b>		<b>72,459.6</b>	<b>56,935.8</b>	<b>64,710.5</b>

## NORTHERN ROCK GROUP INTERIM RESULTS

### PROFORMA CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
<b>Changes in equity for the six months ended 30 June 2004</b>									
<b>Balance at 1 January 2004</b>		<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>-</b>	<b>1,183.8</b>	<b>1,321.8</b>	<b>-</b>	<b>1,321.8</b>
Proforma adoption of IAS 32 and IAS 39	21	-	-	-	-	(110.4)	(110.4)	650.3	539.9
Restated balance at 1 January 2004		123.9	6.8	7.3	-	1,073.4	1,211.4	650.3	1,861.7
Profit for the period		-	-	-	-	135.1	135.1	14.9	150.0
<b>Total recognised income and expense for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>135.1</b>	<b>135.1</b>	<b>14.9</b>	<b>150.0</b>
Dividends	10	-	-	-	-	(65.3)	(65.3)	-	(65.3)
Appropriations		-	-	-	-	-	-	(14.9)	(14.9)
Issue of non shareholders' funds		-	-	-	-	-	-	396.1	396.1
Movement in own shares	17	-	-	-	-	6.5	6.5	-	6.5
<b>Balance at 30 June 2004</b>		<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>-</b>	<b>1,149.7</b>	<b>1,287.7</b>	<b>1,046.4</b>	<b>2,334.1</b>

## NORTHERN ROCK GROUP INTERIM RESULTS

### PROFORMA CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
<b>Changes in equity for the year ended 31 December 2004</b>									
<b>Balance at 1 January 2004</b>		<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>-</b>	<b>1,183.8</b>	<b>1,321.8</b>	<b>-</b>	<b>1,321.8</b>
Proforma adoption of IAS 32 and IAS 39	21	-	-	-	-	(110.4)	(110.4)	650.3	539.9
Restated balance at 1 January 2004		123.9	6.8	7.3	-	1,073.4	1,211.4	650.3	1,861.7
Profit for the year		-	-	-	-	271.2	271.2	42.6	313.8
<b>Total recognised income and expense for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>271.2</b>	<b>271.2</b>	<b>42.6</b>	<b>313.8</b>
Dividends	10	-	-	-	-	(100.6)	(100.6)	-	(100.6)
Appropriations		-	-	-	-	-	-	(42.6)	(42.6)
Issue of non shareholders' funds		-	-	-	-	-	-	396.1	396.1
Movement in own shares	17	-	-	-	-	8.9	8.9	-	8.9
Pension fund		-	-	-	(2.0)	-	(2.0)	-	(2.0)
<b>Balance at 31 December 2004</b>		<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>(2.0)</b>	<b>1,252.9</b>	<b>1,388.9</b>	<b>1,046.4</b>	<b>2,435.3</b>

## NORTHERN ROCK GROUP INTERIM RESULTS

### PROFORMA CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
<b>Changes in equity for the six months ended 30 June 2005</b>								
<b>Balance at 31 December 2004</b>	<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>(2.0)</b>	<b>1,252.9</b>	<b>1,388.9</b>	<b>1,046.4</b>	<b>2,435.3</b>
Additional statutory adjustments	-	-	-	35.8	(31.0)	4.8	(10.6)	(5.8)
<b>Balance at 1 January 2005</b>	<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>33.8</b>	<b>1,221.9</b>	<b>1,393.7</b>	<b>1,035.8</b>	<b>2,429.5</b>
Changes in valuation of available for sale investments, net of tax	18	-	-	29.6	-	29.6	-	29.6
Net change in cash flow hedges net of tax	18	-	-	(8.7)	-	(8.7)	-	(8.7)
<b>Net gains not recognised in the income statement</b>	-	-	-	20.9	-	20.9	-	20.9
Net profits on disposal transferred to net income	18	-	-	(19.0)	-	(19.0)	-	(19.0)
Profit for the period	-	-	-	-	188.2	188.2	19.7	207.9
<b>Total recognised income and expense for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.9</b>	<b>188.2</b>	<b>190.1</b>	<b>19.7</b>	<b>209.8</b>
Dividends	10	-	-	-	(74.7)	(74.7)	-	(74.7)
Appropriations	-	-	-	-	-	-	(19.7)	(19.7)
Movement in own shares	17	-	-	-	7.4	7.4	-	7.4
<b>Balance at 30 June 2005</b>	<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>35.7</b>	<b>1,342.8</b>	<b>1,516.5</b>	<b>1,035.8</b>	<b>2,552.3</b>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS

### 1. Basis of Preparation

To enable a more meaningful presentation of results, in addition to the statutory comparatives for the interim and full year 2004 accounts, proforma comparatives have been prepared and are set out on pages 76 to 112. These show how the 2004 results would have looked, assuming the full application of IAS 32, and the application of IAS 39 excluding the fair value accounting volatility. The Group has not shown the full impacts from all the IAS 39 accounting rules as hedges and financial assets to be fair valued were only designated and documented from 1 January 2005.

### 2. Underlying Results

Underlying results are reconciled to the reported results in the following table.

	<b>Six months to 30 June 2005</b>		
	<b><u>Profit before taxation</u></b>	<b><u>Profit for the period</u></b>	<b><u>Profit attributable to equity shareholders</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
Reported results	294.0	207.9	188.2
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses (note 5)	(57.6)	(57.6)	(57.6)
Impact of covenant to The Northern Rock Foundation	2.8	2.8	2.8
Associated taxation	-	16.0	16.0
Underlying results	<u>239.2</u>	<u>169.1</u>	<u>149.4</u>

Underlying results include the interest related fair value movements on forward exchange contracts and exclude the hedge accounting ineffectiveness on derivatives where fair value hedge accounting has been obtained, together with gains and losses on non-hedging derivatives excluding interest flows to the extent that these are not offset by translation gains and losses on underlying instruments in economic hedging relationships.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 3. Total Income

	<b>Six months to 30 June</b>		<b>Full Year</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
<b>Reported total income</b>	419.8	349.7	724.5
Adjustment:			
Interest implicit in forward exchange contracts	(24.3)	-	-
<b>Underlying total income</b>	<u>395.5</u>	<u>349.7</u>	<u>724.5</u>
Mean total assets	68,585.1	54,373.2	58,260.6
Mean total assets (underlying)	67,955.5	54,373.2	58,260.6
Mean risk weighted assets	23,222.4	19,654.1	21,100.1
Underlying total income : mean total assets (underlying)	1.16%	1.29%	1.24%
Underlying total income : mean risk weighted assets	3.41%	3.56%	3.43%
Reported total income : mean total assets	1.22%	1.29%	1.24%
Reported total income : mean risk weighted assets	3.62%	3.56%	3.43%

Interest implicit in forward exchange contracts represents the difference between the sterling cost implicit from the exchange contract and the currency coupon on the foreign currency liability translated at spot exchange rates. This is regarded as the interest element of the forward exchange contract. The remainder of the contract is the difference between the full fair value of the contract and the interest element of the contract and represents the currency fair value element of the contract.

The full fair value of foreign exchange contracts including both the interest and currency elements is included in "Net hedge ineffectiveness and other unrealised fair value gains and losses" in the reported results (see note 5).

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 4. Net Interest Income

	<b>Six months to 30 June</b>		<b>Full Year</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
<b>Interest income</b>			
Secured advances	1,524.4	1,038.2	2,397.5
Other lending	160.0	153.6	317.1
Investment securities and deposits	254.8	154.6	359.7
	<u>1,939.2</u>	<u>1,346.4</u>	<u>3,074.3</u>
<b>Interest expense</b>			
Retail customer accounts	409.5	311.5	689.7
Other deposits and loans	1,126.1	717.3	1,714.5
Subordinated liabilities	27.1	15.5	49.8
Reserve capital instruments	-	(3.3)	(5.4)
Tier one notes	7.2	6.1	13.0
	<u>1,569.9</u>	<u>1,047.1</u>	<u>2,461.6</u>
Interest implicit in forward foreign exchange contracts	24.3	-	-
Underlying interest expense	<u>1,594.2</u>	<u>1,047.1</u>	<u>2,461.6</u>
<b>Net interest income as reported</b>	<u>369.3</u>	<u>299.3</u>	<u>612.7</u>
<b>Underlying net interest income</b>	<u>345.0</u>	<u>299.3</u>	<u>612.7</u>
Average interest earning assets excluding fair value adjustments	<u>68,723.6</u>	<u>53,354.7</u>	<u>57,222.3</u>
Average interest bearing liabilities excluding fair value adjustments	<u>66,235.6</u>	<u>51,431.6</u>	<u>55,111.8</u>
Interest margin as reported	<u>1.07%</u>	<u>1.12%</u>	<u>1.07%</u>
Interest spread as reported	<u>0.90%</u>	<u>0.98%</u>	<u>0.91%</u>
Underlying interest margin	<u>1.00%</u>	<u>1.12%</u>	<u>1.07%</u>
Underlying interest spread	<u>0.83%</u>	<u>0.98%</u>	<u>0.91%</u>

Interest margin has been calculated by reference to average interest earning assets excluding fair value adjustments. For assets denominated in foreign currencies, where these have been economically hedged, average balances are based on the contract rate implicit in the associated hedging instrument. Average balances have been calculated on a monthly basis.

Interest spread represents the difference between interest receivable as a % of average interest earning assets, excluding fair value adjustments, and interest payable as a % of average interest bearing liabilities, excluding fair value adjustments. For assets and liabilities denominated in foreign currencies, where these have been economically hedged, average balances are based on the contract rate implicit in the associated hedging instrument.

Included within interest income is an adjustment of £1.7m with respect to the unwind of the discount included in the impairment allowance under IFRS.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 5. Net Hedge Ineffectiveness and Other Unrealised Fair Value Gains and Losses

	Six months to 30 June		Full Year
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Future fair value movements excluding interest flows on non-hedging derivatives	734.1	-	-
Translation gains and losses on underlying instruments	(732.3)	-	-
	1.8	-	-
Net hedge ineffectiveness excluding interest flows on fair value hedges	31.5	-	-
Net hedge ineffectiveness and other unrealised fair value gains and losses	33.3	-	-
Interest implicit in forward exchange contracts (note 3)	24.3	-	-
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses	57.6	-	-

The Group enters into certain derivative financial instruments which although highly effective as economic hedges are not included in hedge accounting relationships. These derivatives include hedges on certain foreign currency assets and wholesale funding recorded at amortised cost and instruments included within non shareholders' funds, forward currency contracts and previously effective hedges which have been de-designated.

The future fair value movements excluding interest flows on such derivatives are separately identified within "Net hedge effectiveness and other unrealised fair value gains and losses", together with the translation gains and losses on underlying instruments arising from the revaluation from foreign currency into sterling. The deemed interest flows on such derivatives are included within interest income or expense, as appropriate.

Net hedge ineffectiveness excluding interest flows on fair value hedges represents the difference between changes in the future fair value excluding interest flows of the hedging derivatives and the changes in the future fair value excluding interest flows of the underlying hedged items.

### 6. Operating Expenses

Operating expenses excluding the covenant to The Northern Rock Foundation are as follows:

	Six months to 30 June		Full Year
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Staff costs	66.9	56.0	119.6
Other expenses	37.7	37.0	79.1
Depreciation and amortisation	14.3	7.8	18.2
Total operating expenses	118.9	100.8	216.9

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

	Six months to 30 June		Full Year
	<u>2005</u>	<u>2004</u>	<u>2004</u>
Full time	4,429	3,674	3,916
Part time	1,272	1,000	1,064

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 7. Interest Incentives and Fees

Included within the consolidated balance sheet are the following:

	<b>Mortgage incentives £m</b>	<b>Fees receivable £m</b>	<b>Fees payable £m</b>	<b>Total £m</b>
<b>Balance at 1 January 2004</b>	236.9	(13.2)	108.4	332.1
Adoption of IAS 39	2.9	(168.9)	(6.1)	(172.1)
	<u>239.8</u>	<u>(182.1)</u>	<u>102.3</u>	<u>160.0</u>
Amounts charged / paid	157.1	(80.6)	50.6	127.1
Released in the period	(163.4)	59.7	(30.2)	(133.9)
<b>Balance at 30 June 2004</b>	<u>233.5</u>	<u>(203.0)</u>	<u>122.7</u>	<u>153.2</u>

	<b>Mortgage incentives £m</b>	<b>Fees receivable £m</b>	<b>Fees payable £m</b>	<b>Total £m</b>
<b>Balance at 1 January 2004</b>	236.9	(13.2)	108.4	332.1
Adoption of IAS 39	2.9	(168.9)	(6.1)	(172.1)
	<u>239.8</u>	<u>(182.1)</u>	<u>102.3</u>	<u>160.0</u>
Amounts charged / paid	466.2	(184.5)	121.5	403.2
Released in the period	(393.2)	128.4	(69.5)	(334.3)
<b>Balance at 31 December 2004</b>	<u>312.8</u>	<u>(238.2)</u>	<u>154.3</u>	<u>228.9</u>

	<b>Mortgage incentives £m</b>	<b>Fees receivable £m</b>	<b>Fees payable £m</b>	<b>Total £m</b>
<b>Balance at 31 December 2004</b>	312.8	(238.2)	154.3	228.9
Amounts charged / paid	268.3	(107.3)	55.4	216.4
Released in the period	(225.5)	76.8	(44.9)	(193.6)
<b>Balance at 30 June 2005</b>	<u>355.6</u>	<u>(268.7)</u>	<u>164.8</u>	<u>251.7</u>

The adoption of IAS 39 adjustment comprises:

	<b>1 January 2004 £m</b>
Reclassified from prepayments and accrued income (note 21a)	(185.3)
Reclassified from accruals and deferred income (note 21d)	13.2
	<u>(172.1)</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 8. Impairment Losses on Loans and Advances to Customers

	<b>Six months to 30 June</b>		<b>Full Year</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
<b>Impairment charge:</b>			
Secured on residential property	(5.2)	3.1	(0.5)
Secured commercial	(6.2)	0.7	0.7
Unsecured	36.9	22.7	48.3
<b>Total impairment charge</b>	<b><u>25.5</u></b>	<b><u>26.5</u></b>	<b><u>48.5</u></b>
% of mean advances to customers	0.09%	0.12%	0.10%
	<b><u>30 June</u></b>	<b><u>30 June</u></b>	<b><u>31 December</u></b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
<b>Impairment allowance:</b>			
<b>Individual</b>			
Secured on residential property	9.9	2.5	3.4
Secured commercial	0.4	2.8	1.0
Unsecured	41.5	32.2	41.4
<b>Total</b>	<b><u>51.8</u></b>	<b><u>37.5</u></b>	<b><u>45.8</u></b>
<b>Collective</b>			
Secured on residential property	16.6	39.9	32.9
Secured commercial	5.4	11.0	11.2
Unsecured	51.2	34.0	37.0
<b>Total</b>	<b><u>73.2</u></b>	<b><u>84.9</u></b>	<b><u>81.1</u></b>
<b>Total impairment allowance</b>	<b><u>125.0</u></b>	<b><u>122.4</u></b>	<b><u>126.9</u></b>
% of period end advances to customers	0.20%	0.26%	0.23%

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 9. Residential Mortgage Arrears

	<b>30 June <u>2005</u></b>		<b>30 June <u>2004</u></b>		<b>31 December <u>2004</u></b>	
	<b>Cases</b>	<b>%</b>	<b>Cases</b>	<b>%</b>	<b>Cases</b>	<b>%</b>
3 – 6 months	1,685	0.27	1,591	0.29	1,695	0.29
Over 6 – 12 months	460	0.07	501	0.09	422	0.07
Over 12 months	10	0.01	49	0.01	18	0.01
Total	<u>2,155</u>	<u>0.35</u>	<u>2,141</u>	<u>0.39</u>	<u>2,135</u>	<u>0.37</u>

### 10. Dividends

The following tables analyse dividends when paid and the period to which they relate.

	<b>30 June <u>2005</u> pence per share</b>	<b>30 June <u>2004</u> pence per share</b>	<b>31 December <u>2004</u> pence per share</b>
2003 final dividend	-	15.8	15.8
2004 interim dividend	-	-	8.5
2004 final dividend	18.0	-	-
	<u>18.0</u>	<u>15.8</u>	<u>24.3</u>

The proposed interim dividend in respect of 2005 amounts to 9.4 pence per share (£39.2 million). These Interim Results do not reflect this dividend payable.

	<b>30 June <u>2005</u> £m</b>	<b>30 June <u>2004</u> £m</b>	<b>31 December <u>2004</u> £m</b>
2003 final dividend	-	66.2	66.2
2004 interim dividend	-	-	35.2
2004 final dividend	74.7	-	-
Less paid to ESOP trusts	-	(0.9)	(0.8)
	<u>74.7</u>	<u>65.3</u>	<u>100.6</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 11. Earnings per Share

Earnings per share figures based upon reported (basic) and underlying profit on ordinary activities attributable to equity shareholders are as follows:

	<b>Six months to 30 June</b>		<b>Full Year</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
Weighted average number of shares in issue	413.8m	412.8m	413.0m
Basic EPS	45.5p	32.7p	65.7p
Underlying EPS	36.1p	32.7p	65.7p

The weighted average number of Ordinary shares in issue has been determined after deducting shares held in trust for employee share schemes.

Diluted weighted average number of shares in issue	416.9m	415.8m	416.6m
Diluted EPS	45.1p	32.5p	65.1p
Underlying fully diluted EPS	35.8p	32.5p	65.1p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 3.1 million (30 June 2004: 3.0 million, 31 December 2004: 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.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 12. Mortgage Lending

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

	Six months to 30 June		Full Year
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>%</u>	<u>%</u>	<u>%</u>
<b>Type of lending</b>			
Fixed rate (long term – over 2 years)	26	5	8
Fixed rate (short term – up to and including 2 years)	30	37	46
Discount	10	22	16
Cashback	1	1	1
Together	23	28	21
Lifetime	1	2	2
Buy to Let	9	5	6
<b>Type of customer</b>			
First time buyer	21	22	21
Next time buyer	34	38	38
Remortgage	36	35	35
Buy to Let	9	5	6
<b>Geographic spread</b>			
North	15	15	15
Scotland	10	10	10
Midlands	25	24	24
South	50	51	51

### 13. Loans and Advances to Customers

	30 June	30 June	31 December
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Advances secured on residential property not subject to securitisation	25,788.8	21,594.2	27,192.3
Advances secured on residential property subject to securitisation	28,979.7	20,176.0	21,661.1
Advances secured on residential property	<u>54,768.5</u>	<u>41,770.2</u>	<u>48,853.4</u>
Commercial secured advances not subject to securitisation	1,347.5	1,074.9	1,270.6
Commercial secured advances subject to securitisation	200.0	315.3	238.4
Total other secured advances	<u>1,547.5</u>	<u>1,390.2</u>	<u>1,509.0</u>
Unsecured loans not subject to securitisation	4,904.1	3,896.6	4,596.1
Unsecured investment loans	440.3	43.4	9.1
	<u>61,660.4</u>	<u>47,100.4</u>	<u>54,967.6</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 14. Securitisation

The Group's results include the results and assets and liabilities of securitisation Special Purpose Entities ("SPEs") on a line by line basis. Under UK GAAP the SPEs were incorporated into the financial statements using linked presentation. Following the introduction of IFRS and a change in UK companies legislation, these SPEs are now treated as legal subsidiaries and consolidated on a line by line basis.

Securitised advances are subject to non-recourse finance arrangements. These loans have been purchased at par by SPEs 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 30 June 2005 are as follows:

<b>Securitisation company</b>	<b>Date of securitisation</b>	<b>Gross assets securitised £m</b>	<b>Non-recourse finance £m</b>	<b>Subordinated loans made by the Group £m</b>
Residential:				
Granite Mortgages 99-1 plc	1 October 1999	89.1	79.8	-
Granite Mortgages 00-1 plc	1 March 2000	252.0	238.6	-
Granite Mortgages 00-2 plc	25 September 2000	482.6	411.3	2.9
Granite Mortgages 01-1 plc	26 March 2001	747.1	697.3	5.5
Granite Mortgages 01-2 plc	28 September 2001	827.6	778.3	10.2
Granite Mortgages 02-1 plc	20 March 2002	1,500.2	1,434.0	28.8
Granite Mortgages 02-2 plc	23 September 2002	1,861.9	1,785.1	26.7
Granite Mortgages 03-1 plc	27 January 2003	2,130.7	2,059.6	30.3
Granite Mortgages 03-2 plc	21 May 2003	1,670.5	1,590.6	25.2
Granite Mortgages 03-3 plc	24 September 2003	1,584.8	1,492.0	18.0
Granite Mortgages 04-1 plc	28 January 2004	2,695.7	2,563.4	51.1
Granite Mortgages 04-2 plc	26 May 2004	2,992.0	2,850.5	66.4
Granite Mortgages 04-3 plc	22 September 2004	3,564.7	3,428.1	50.8
Granite Master Issuer 05-1 plc	26 January 2005	4,353.9	4,227.5	71.3
Granite Master Issuer 05-2 plc	25 May 2005	4,206.9	4,052.6	74.4
		28,959.7	27,688.7	461.6
Retained interest in Granite Trustees Limited		2,196.5		
Less cash deposits held with Northern Rock plc		(1,859.3)		
<b>Total residential</b>		29,296.9	27,688.7	461.6
Commercial:				
Dolerite Funding No 1 plc	24 June 2002	181.9	162.5	14.5
Retained interest in Dolerite Trustees Limited		51.6		
<b>Total commercial</b>		233.5	162.5	14.5
<b>Total</b>		29,530.4	27,851.2	476.1

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.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 14. Securitisation (continued)

Included within the Interim Results are the following items relating to the SPEs:

<b>Balance sheet</b>	<b>30 June 2005 £m</b>	<b>30 June 2004 £m</b>	<b>31 December 2004 £m</b>
Advances secured on residential property	26,783.2	18,970.6	20,835.0
Other secured loans	148.4	251.8	186.1
Cash deposits with third parties	350.7	1,052.7	423.9
Debt securities in issue	27,705.5	20,282.5	22,089.9

At 30 June 2005 the SPEs had cash deposits with Northern Rock amounting to £1,859.3m (30 June 2004 - £612.0m, 31 December 2004 - £1,396.0m). This balance is restricted in use to the repayment of the debt securities issued by the SPEs and other legal obligations.

### 15. Covered Bonds

Included within loans and advances to customers not subject to securitisation are £3,344 million of mortgage advances assigned to a bankruptcy remote special purpose vehicle. These loans provide security to issues of covered bonds made by Northern Rock of £1,341 million on 4 May 2004 and £1,025 million on 20 April 2005, which are included within debt securities in issue. Northern Rock retains substantially all the risks and rewards associated with these loans and therefore these transactions do not qualify for derecognition under IAS 39.

### 16. Analysis of Customer Accounts

	<b>30 June 2005 £m</b>	<b>30 June 2004 £m</b>	<b>31 December 2004 £m</b>
Branch accounts	4,303.8	2,437.4	3,084.4
Postal accounts	8,546.1	6,848.2	7,554.5
Internet accounts	2,182.7	2,693.0	2,503.4
Offshore accounts	2,611.8	2,321.4	2,499.4
Telephone accounts	747.4	1,087.7	896.3
Legal & General branded accounts	616.3	844.3	752.2
Total retail balances	19,008.1	16,232.0	17,290.2
Other customer accounts	2,489.7	2,538.1	3,103.5
	<u>21,497.8</u>	<u>18,770.1</u>	<u>20,393.7</u>

## NORTHERN ROCK GROUP INTERIM RESULTS

### NOTES TO THE PROFORMA RESULTS (CONTINUED)

#### 17. Own Shares

The amounts deducted from retained earnings in respect of own shares, which are held at cost, are as follows:

	<b>30 June 2005 £m</b>	<b>30 June 2004 £m</b>	<b>31 December 2004 £m</b>
Own shares in relation to employee share schemes	48.0	52.6	55.3

Movements in the amount deducted from retained earnings in respect of own shares are as follows:

	<b>30 June 2005 £m</b>	<b>30 June 2004 £m</b>	<b>31 December 2004 £m</b>
At 1 January	55.3	58.2	58.2
Purchases of shares	1.2	2.1	6.0
Use of shares on exercise of employee options and for other employee share plans	(8.5)	(7.7)	(8.9)
	(7.3)	(5.6)	(2.9)
	48.0	52.6	55.3

The credit to retained earnings is as follows:

	<b>30 June 2005 £m</b>	<b>30 June 2004 £m</b>	<b>31 December 2004 £m</b>
Value of employee services	5.9	4.6	7.9
Cash received on exercise of employee options and for other employee share plans	2.7	2.9	3.4
Tax impact of share based payments	-	1.1	3.6
Purchase of shares	(1.2)	(2.1)	(6.0)
	7.4	6.5	8.9

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 18. Other Reserves

Other reserves comprise:

	<b>30 June 2005 £m</b>	<b>30 June 2004 £m</b>	<b>31 December 2004 £m</b>
Revaluation reserve – available-for-sale investments	37.6	-	-
Hedging reserve – cash flow hedges	0.1	-	-
Pension reserve	(2.0)	-	(2.0)
	35.7	-	(2.0)

Movements in reserves are as follows:

#### **Revaluation reserve – available-for-sale investments**

	<b>£m</b>
<b>Balance at 31 December 2004</b>	-
Adoption of IAS 39	27.0
<b>Balance at 1 January 2005</b>	27.0
Net gains from changes in fair value	41.9
Deferred income taxes	(12.3)
Net profits on disposal transferred to net income	(27.2)
Deferred income taxes	8.2
<b>Balance at 30 June 2005</b>	37.6

#### **Hedging reserve – cash flow hedges**

	<b>£m</b>
<b>Balance at 31 December 2004</b>	-
Adoption of IAS 39	8.8
<b>Balance at 1 January 2005</b>	8.8
Net gains / (losses) from changes in fair value	(12.4)
Deferred income taxes	3.7
<b>Balance at 30 June 2005</b>	0.1

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 19. Capital Structure

	<b>30 June 2005 £m</b>	<b>30 June 2004 £m</b>	<b>31 December 2004 £m</b>
<b>Tier 1</b>			
Share capital	123.9	123.9	123.9
Share premium account	6.8	6.8	6.8
Capital redemption reserve	7.3	7.3	7.3
Retained earnings	1,342.8	1,149.7	1,252.9
Pension scheme deficit	36.0	34.0	34.8
Reserve capital instruments	293.0	256.6	274.0
Tier one notes	219.8	200.0	200.0
Goodwill and intangible assets	(76.4)	(67.6)	(73.1)
Total Tier 1 capital	<u>1,953.2</u>	<u>1,710.7</u>	<u>1,826.6</u>
<b>Upper Tier 2</b>			
Perpetual subordinated debt	736.5	746.4	746.4
Reserve capital instruments	6.3	43.4	26.0
Collective impairment allowance *	73.2	92.1	83.1
Total Upper Tier 2 capital	<u>816.0</u>	<u>881.9</u>	<u>855.5</u>
<b>Lower Tier 2</b>			
Term subordinated debt	790.2	769.3	769.3
Total Tier 2 capital	<u>1,606.2</u>	<u>1,651.2</u>	<u>1,624.8</u>
Deductions	<u>(526.8)</u>	<u>(299.7)</u>	<u>(374.7)</u>
Total capital	<u>3,032.6</u>	<u>3,062.2</u>	<u>3,076.7</u>
Risk weighted assets	<u>23,680.1</u>	<u>19,872.7</u>	<u>22,764.7</u>
Tier 1 ratio (%)	8.2%	8.6%	8.0%
Total capital (%)	12.8%	15.4%	13.5%

\* Previously referred to as general provisions

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 20. Reconciliations Between Proforma IFRS and UK GAAP

The following reconciliations provide a quantification of the proforma effect of transition to IFRS.

#### Proforma Summary of Equity

	<u>Note</u>	<u>1 January</u> <u>2004</u> <u>£m</u>	<u>30 June</u> <u>2004</u> <u>£m</u>	<u>31 December</u> <u>2004</u> <u>£m</u>
<b>Total equity as reported under UK GAAP</b>		1,339.9	1,451.9	1,541.9
Restatement of goodwill		-	1.8	3.6
Reversal of pension prepayment under UK GAAP		(30.6)	(29.8)	(29.0)
Restatement of retirement benefits under IAS 19		(47.3)	(48.5)	(52.5)
Total Pension fund adjustment		(77.9)	(78.3)	(81.5)
Property impairment		3.9	4.7	4.7
Reinstatement of de-recognised liabilities		(51.7)	(51.7)	(51.7)
Dividends		65.3	35.3	74.7
Recognition of deferred tax in accordance with IAS 12		23.3	17.7	14.1
Reversal of deferred tax recognised under UK GAAP		19.0	25.3	31.8
Total tax effect of above		42.3	43.0	45.9
<b>Total statutory equity under IFRS</b>		1,321.8	1,406.7	1,537.6
Reclassified from prepayments and accrued income	21a	(185.3)	(206.9)	(234.2)
Reclassified from accruals and deferred income	21d	13.2	10.5	7.9
Total impact of effective interest rate adjustment		(172.1)	(196.4)	(226.3)
Debt / equity appropriations	21d	14.3	26.9	14.3
Covenant		-	(0.5)	(0.5)
Tax effect of above	21b	47.4	51.0	63.8
Reclassification of subordinated liabilities to equity	21h	650.3	1,046.4	1,046.4
<b>Total proforma equity under IFRS</b>		1,861.7	2,334.1	2,435.3

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Proforma Balance Sheets Reconciliations

1 January 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS Statutory	Effect of transition to IFRS Proforma	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Assets</b>					
Cash and balances at central banks		11.6	47.2	-	58.8
Derivative financial instruments		-	-	-	-
Loans and advances to banks		3,450.2	1,153.2	-	4,603.4
Loans and advances to customers not subject to securitisation		27,355.8	(27,355.8)	-	-
Loans and advances to customers subject to securitisation		15,678.7	(15,678.7)	-	-
Less: non-recourse finance		(14,832.4)	14,832.4	-	-
		28,202.1	(28,202.1)	-	-
Loans and advances to customers	21a	-	41,847.4	137.8	41,985.2
Available for sale securities					
Investment securities		-	-	-	-
Debt securities		4,185.5	-	-	4,185.5
Equity shares and other variable yield securities		410.8	-	-	410.8
Intangible assets		30.7	30.4	-	61.1
Property, plant and equipment		179.1	(26.5)	-	152.6
Deferred income tax asset	21b	-	23.3	47.4	70.7
Other assets		76.6	(5.2)	-	71.4
Prepayments and accrued income	21c	564.8	(30.6)	(323.1)	211.1
<b>Total assets</b>		<u>37,111.4</u>	<u>14,837.1</u>	<u>(137.9)</u>	<u>51,810.6</u>
<b>Liabilities</b>					
Deposits by banks		1,461.5	-	-	1,461.5
Customer accounts		18,797.3	51.7	-	18,849.0
Derivative financial instruments		-	-	-	-
Debt securities in issue					
Securitised notes		-	14,868.3	-	14,868.3
Covered bonds		-	-	-	-
Other		13,060.1	(3.6)	-	13,056.5
Other liabilities	21e	285.0	(203.3)	-	81.7
Current taxation liabilities		53.8	-	-	53.8
Accruals and deferred income	21d	475.3	113.8	(27.5)	561.6
Provisions for liabilities and charges		19.0	28.3	-	47.3
Subordinated liabilities	21f	1,119.5	-	(350.3)	769.2
Reserve capital instruments	21g	300.0	-	(300.0)	-
Tier one notes		200.0	-	-	200.0
		35,771.5	14,855.2	(677.8)	49,948.9

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Reconciliation of Proforma Balance Sheets (continued)

1 January 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS	Effect of transition to IFRS	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Equity</b>					
<b>Shareholders' funds</b>					
Called up share capital		123.9	-	-	123.9
Share premium account		6.8	-	-	6.8
Capital redemption reserve		7.3	-	-	7.3
Other reserves		-	-	-	-
Retained earnings		1,201.9	(18.1)	(110.4)	1,073.4
<b>Total equity attributable to equity shareholders</b>		1,339.9	(18.1)	(110.4)	1,211.4
<b>Non shareholders' funds</b>					
Reserve capital instruments	21h	-	-	300.0	300.0
Subordinated notes	21h	-	-	350.3	350.3
<b>Total non shareholders' funds</b>		-	-	650.3	650.3
<b>Total equity</b>		1,339.9	(18.1)	539.9	1,861.7
<b>Total equity and liabilities</b>		37,111.4	14,837.1	(137.9)	51,810.6

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Reconciliation of Proforma Balance Sheets (continued)

30 June 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS Statutory	Effect of transition to IFRS Proforma	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Assets</b>					
Cash and balances at central banks		7.7	49.2	-	56.9
Derivative financial instruments		-	-	-	-
Loans and advances to banks		3,339.6	1,003.5	-	4,343.1
Loans and advances to customers not subject to securitisation		26,475.6	(26,475.6)	-	-
Loans and advances to customers subject to securitisation		21,535.2	(21,535.2)	-	-
Less: non-recourse finance		(20,267.5)	20,267.5	-	-
		27,743.3	(27,743.3)	-	-
Loans and advances to customers	21a	-	46,966.9	133.5	47,100.4
Available for sale securities		-	-	-	-
Investment securities					
Debt securities		4,320.7	-	-	4,320.7
Equity shares and other variable yield securities		500.7	-	-	500.7
Intangible assets		28.9	38.7	-	67.6
Property, plant and equipment		198.0	(32.2)	-	165.8
Deferred income tax asset	21b	-	17.7	51.0	68.7
Other assets		63.5	(0.8)	-	62.7
Prepayments and accrued income	21c	614.9	(25.3)	(340.4)	249.2
<b>Total assets</b>		<u>36,817.3</u>	<u>20,274.4</u>	<u>(155.9)</u>	<u>56,935.8</u>
<b>Liabilities</b>					
Deposits by banks		1,586.5	-	-	1,586.5
Customer accounts		18,718.4	51.7	-	18,770.1
Derivative financial instruments		-	-	-	-
Debt securities in issue					
Securitised notes		-	20,282.5	-	20,282.5
Covered bonds		1,340.8	(1.8)	-	1,339.0
Other		10,935.4	0.2	-	10,935.6
Other liabilities	21e	263.4	(176.4)	0.5	87.5
Current taxation liabilities		57.7	-	-	57.7
Accruals and deferred income	21d	422.2	140.2	(37.4)	525.0
Provisions for liabilities and charges		25.3	23.2	-	48.5
Subordinated liabilities	21f	1,515.7	-	(746.4)	769.3
Reserve capital instruments	21g	300.0	-	(300.0)	-
Tier one notes		200.0	-	-	200.0
		<u>35,365.4</u>	<u>20,319.6</u>	<u>(1,083.3)</u>	<u>54,601.7</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Reconciliation of Proforma Balance Sheets (continued)

30 June 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS Statutory	Effect of transition to IFRS Proforma	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Equity</b>					
<b>Shareholders' funds</b>					
Called up share capital		123.9	-	-	123.9
Share premium account		6.8	-	-	6.8
Capital redemption reserve		7.3	-	-	7.3
Other reserves		-	-	-	-
Retained earnings		1,313.9	(45.2)	(119.0)	1,149.7
<b>Total equity attributable to equity shareholders</b>		1,451.9	(45.2)	(119.0)	1,287.7
<b>Non shareholders' funds</b>					
Reserve capital instruments	21h	-	-	300.0	300.0
Subordinated notes	21h	-	-	746.4	746.4
<b>Total non shareholders' funds</b>		-	-	1,046.4	1,046.4
<b>Total equity</b>		1,451.9	(45.2)	927.4	2,334.1
<b>Total equity and liabilities</b>		<u>36,817.3</u>	<u>20,274.4</u>	<u>(155.9)</u>	<u>56,935.8</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Reconciliation of Proforma Balance Sheets (continued)

31 December 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS Statutory	Effect of transition to IFRS Proforma	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Assets</b>					
Cash and balances at central banks		10.2	55.1	-	65.3
Derivative financial instruments		-	-	-	-
Loans and advances to banks		3,305.4	368.8	-	3,674.2
Loans and advances to customers not subject to securitisation		32,869.3	(32,869.3)	-	-
Loans and advances to customers subject to securitisation		22,339.2	(22,339.2)	-	-
Less: non-recourse finance		(22,103.7)	22,103.7	-	-
		33,104.8	(33,104.8)	-	-
Loans and advances to customers	21a	-	54,768.8	198.8	54,967.6
Available for sale securities					
Investment securities		-	-	-	-
Debt securities		4,742.2	-	-	4,742.2
Equity shares and other variable yield securities		575.6	-	-	575.6
Intangible assets		27.1	46.0	-	73.1
Property, plant and equipment		208.2	(37.7)	-	170.5
Deferred income tax asset	21b	-	14.1	63.8	77.9
Other assets		69.6	8.6	-	78.2
Prepayments and accrued income	21c	746.9	(28.0)	(433.0)	285.9
<b>Total assets</b>		<u>42,790.0</u>	<u>22,090.9</u>	<u>(170.4)</u>	<u>64,710.5</u>
<b>Liabilities</b>					
Deposits by banks		1,201.6	-	-	1,201.6
Customer accounts		20,342.0	51.7	-	20,393.7
Derivative financial instruments		-	-	-	-
Debt securities in issue					
Securitised notes		-	22,089.9	-	22,089.9
Covered bonds		1,340.8	(1.8)	-	1,339.0
Other		15,440.8	(5.5)	-	15,435.3
Other liabilities	21e	275.6	(199.5)	0.5	76.6
Current taxation liabilities		60.0	-	-	60.0
Accruals and deferred income	21d	539.8	139.7	(22.2)	657.3
Provisions for liabilities and charges		31.8	20.7	-	52.5
Subordinated liabilities	21f	1,515.7	-	(746.4)	769.3
Reserve capital instruments	21g	300.0	-	(300.0)	-
Tier one notes		200.0	-	-	200.0
		<u>41,248.1</u>	<u>22,095.2</u>	<u>(1,068.1)</u>	<u>62,275.2</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Reconciliation of Proforma Balance Sheets (continued)

31 December 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS Statutory	Effect of transition to IFRS Proforma	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Equity</b>					
<b>Shareholders' funds</b>					
Called up share capital		123.9	-	-	123.9
Share premium account		6.8	-	-	6.8
Capital redemption reserve		7.3	-	-	7.3
Other reserves		-	(2.0)	-	(2.0)
Retained earnings		1,403.9	(2.3)	(148.7)	1,252.9
<b>Total equity attributable to equity shareholders</b>		1,541.9	(4.3)	(148.7)	1,388.9
<b>Non shareholders' funds</b>					
Reserve capital instruments	21h	-	-	300.0	300.0
Subordinated notes	21h	-	-	746.4	746.4
<b>Total shareholders' funds</b>		-	-	1,046.4	1,046.4
<b>Total equity</b>		1,541.9	(4.3)	897.7	2,435.3
<b>Total equity and liabilities</b>		<u>42,790.0</u>	<u>22,090.9</u>	<u>(170.4)</u>	<u>64,710.5</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Reconciliation of Proforma Balance Sheets (continued)

#### Explanation of the effect of the transition to IFRS

The following explains the material proforma adjustments to the balance sheet.

#### a) Loans and advances to customers

	<b>1 January</b>	<b>30 June</b>	<b>31 December</b>
	<b><u>2004</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
Impact of effective interest rate adjustment	(185.3)	(206.9)	(234.2)
Reclassification from prepayments and accrued income in relation to effective interest rate adjustment	323.1	340.4	433.0
<b>Impact of effective interest rate adjustment</b>	<b><u>137.8</u></b>	<b><u>133.5</u></b>	<b><u>198.8</u></b>

In accordance with IAS 39 the interest rate is adjusted to reflect the rate that exactly discounts expected future cash payments or receipts through the expected life of the financial instrument to its net carrying amount. This adjustment includes all fees and interest paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

#### b) Deferred tax assets

	<b>1 January</b>	<b>30 June</b>	<b>31 December</b>
	<b><u>2004</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
<b>Deferred tax effects of proforma adjustments</b>	<b><u>47.4</u></b>	<b><u>51.0</u></b>	<b><u>63.8</u></b>

#### c) Prepayments and accrued income

	<b>1 January</b>	<b>30 June</b>	<b>31 December</b>
	<b><u>2004</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
Reclassification of opening balances to loans and advances to customers in relation to effective interest rate adjustment	(345.3)	(360.0)	(463.2)
Impact of effective interest rate adjustment	22.2	19.6	30.2
<b>Total impact – decrease in prepayments and accrued income</b>	<b><u>(323.1)</u></b>	<b><u>(340.4)</u></b>	<b><u>(433.0)</u></b>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Reconciliation of Proforma Balance Sheets (continued)

#### Explanation of the effect of the transition to IFRS (continued)

##### d) Accruals and deferred income

	<u>1 January</u> <u>2004</u> <u>£m</u>	<u>30 June</u> <u>2004</u> <u>£m</u>	<u>31 December</u> <u>2004</u> <u>£m</u>
Impact of effective interest rate adjustment	(13.2)	(10.5)	(7.9)
Reversal of reserve capital instruments and subordinated liabilities coupon payment accrual in accordance with IAS 32 and IAS 10	(14.3)	(26.9)	(14.3)
<b>Total impact – decrease in accruals and deferred income</b>	<u>(27.5)</u>	<u>(37.4)</u>	<u>(22.2)</u>

##### e) Other liabilities

	<u>1 January</u> <u>2004</u> <u>£m</u>	<u>30 June</u> <u>2004</u> <u>£m</u>	<u>31 December</u> <u>2004</u> <u>£m</u>
Impact on payment to The Northern Rock Foundation	-	0.5	0.5

##### f) Subordinated liabilities

	<u>1 January</u> <u>2004</u> <u>£m</u>	<u>30 June</u> <u>2004</u> <u>£m</u>	<u>31 December</u> <u>2004</u> <u>£m</u>
Transfer to non shareholders' equity	<u>(350.3)</u>	<u>(746.4)</u>	<u>(746.4)</u>

In accordance with the requirements of IAS 32 certain subordinated liabilities are classified as non shareholders' equity, as there is no contractual obligation to pay the interest coupon.

##### g) Reserve capital instruments

	<u>1 January</u> <u>2004</u> <u>£m</u>	<u>30 June</u> <u>2004</u> <u>£m</u>	<u>31 December</u> <u>2004</u> <u>£m</u>
Transfer to non shareholders' equity	<u>(300.0)</u>	<u>(300.0)</u>	<u>(300.0)</u>

In accordance with the requirements of IAS 32 reserve capital instruments are classified as non shareholders' equity, as there is no contractual obligation to pay the interest coupon.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 21. Reconciliation of Proforma Balance Sheets (continued)

#### h) Non shareholders' funds

	<b>1 January</b>	<b>30 June</b>	<b>31 December</b>
	<b><u>2004</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
Transfer from subordinated liabilities	350.3	746.4	746.4
Transfer from reserve capital instruments	300.0	300.0	300.0
<b>Total impact – increase in non shareholders' funds</b>	<b><u>650.3</u></b>	<b><u>1,046.4</u></b>	<b><u>1,046.4</u></b>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 22. Reconciliation of Proforma Profit

Six months ended 30 June 2004	<u>Note</u>	UK GAAP  <u>£m</u>	Effect of transition to IFRS Statutory <u>£m</u>	Effect of transition to IFRS Proforma <u>£m</u>	IFRS  <u>£m</u>
<b>Interest and similar income</b>	22a	912.0	395.9	38.5	1,346.4
<b>Interest expense and similar charges</b>	22b	(685.0)	(395.9)	33.8	(1,047.1)
<b>Net interest income</b>		227.0	-	72.3	299.3
Fee and commission income	22c	128.9	5.9	(77.3)	57.5
Fee and commission expense	22c	(24.9)	(2.1)	19.0	(8.0)
Other operating income	22d	9.4	(3.3)	(5.2)	0.9
		113.4	0.5	(63.5)	50.4
<b>Total income</b>		340.4	0.5	8.8	349.7
Administrative expenses		(94.7)	1.0	0.7	(93.0)
Depreciation and amortisation		(10.4)	2.6	-	(7.8)
Covenant to The Northern Rock Foundation		(10.0)	-	(0.5)	(10.5)
Operating expenses	22e	(115.1)	3.6	0.2	(111.3)
Impairment losses on loans and advances		(24.3)	(2.2)	-	(26.5)
Impairment of fixed asset investments		(0.7)	-	-	(0.7)
Net hedge ineffectiveness and other unrealised fair value gains and losses		-	-	-	-
<b>Profit before taxation</b>		200.3	1.9	9.0	211.2
Income tax expense	22f	(58.1)	(0.4)	(2.7)	(61.2)
<b>Profit for the period</b>		142.2	1.5	6.3	150.0
Represented by:					
Appropriations	22g	-	-	14.9	14.9
Profit on ordinary activities attributable to equity shareholders		142.2	1.5	(8.6)	135.1
<b>Total</b>		142.2	1.5	6.3	150.0

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 22. Reconciliation of Proforma Profit (continued)

Year ended 31 December 2004	<u>Note</u>	UK GAAP  <u>£m</u>	Effect of transition to IFRS Statutory <u>£m</u>	Effect of transition to IFRS Proforma <u>£m</u>	IFRS  <u>£m</u>
<b>Interest and similar income</b>	22a	2,035.5	953.9	84.9	3,074.3
<b>Interest expense and similar charges</b>	22b	(1,568.6)	(953.9)	60.9	(2,461.6)
<b>Net interest income</b>		466.9	-	145.8	612.7
Fee and commission income	22c	292.6	12.5	(177.4)	127.7
Fee and commission expense	22c	(60.1)	(4.4)	47.4	(17.1)
Other operating income	22d	31.5	(19.8)	(10.5)	1.2
		264.0	(11.7)	(140.5)	111.8
<b>Total income</b>		730.9	(11.7)	5.3	724.5
Administrative expenses		(203.5)	3.4	1.4	(198.7)
Depreciation and amortisation		(22.6)	4.4	-	(18.2)
Covenant to The Northern Rock Foundation		(21.6)	-	(0.5)	(22.1)
Operating expenses	22e	(247.7)	7.8	0.9	(239.0)
Impairment losses on loans and advances		(56.5)	8.0	-	(48.5)
Impairment of fixed asset investments		4.5	-	-	4.5
Net hedge ineffectiveness and other unrealised fair value gains and losses		-	-	-	-
<b>Profit before taxation</b>		431.2	4.1	6.2	441.5
Income tax expense	22f	(125.0)	(0.8)	(1.9)	(127.7)
<b>Profit for the period</b>		306.2	3.3	4.3	313.8
Represented by:					
Appropriations	22g	-	-	42.6	42.6
Profit on ordinary activities attributable to equity holders		306.2	3.3	(38.3)	271.2
<b>Total</b>		306.2	3.3	4.3	313.8

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 22. Reconciliation of Proforma Profit (continued)

#### Explanation of the effect of the transition to IFRS

##### a) Interest and similar income

	6 months ended <u>30 June 2004</u> <u>£m</u>	Year ended 31 December <u>2004</u> <u>£m</u>
<b>Impact of effective interest rate adjustment</b>	<u>38.5</u>	<u>84.9</u>

In accordance with IAS 39 the interest rate is adjusted to reflect the rate that exactly discounts expected future cash payments or receipts through the expected life of the financial instrument to its net carrying amount. This adjustment includes all fees and interest paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

##### b) Interest expense and similar charges

	6 months ended <u>30 June 2004</u> <u>£m</u>	Year ended 31 December <u>2004</u> <u>£m</u>
<b>Reversal of interest payable on reserve capital instruments and portion of subordinated liabilities</b>	<u>33.8</u>	<u>60.9</u>

In accordance with the requirements of IAS 32 reserve capital instruments and certain subordinated liabilities are classified as non shareholders' equity, as there is no contractual obligation to pay the interest coupon. Accordingly the interest payable on these instruments is removed from interest expense and accounted for as an appropriation and recognised in accordance with IAS 10.

##### c) Fee and commission income and expense

	6 months ended <u>30 June 2004</u> <u>£m</u>	Year ended 31 December <u>2004</u> <u>£m</u>
Reclassification of fee and commission income within interest and similar income	(77.3)	(177.4)
Reclassification of fee and commission expense within interest and similar income	19.0	47.4
<b>Impact of effective interest rate adjustment</b>	<u>(58.3)</u>	<u>(130.0)</u>

Where fees charged on loans are integral to the loan yield, they are classified to interest and similar income, in accordance with the effective interest rate rules of IAS 39.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE PROFORMA RESULTS (CONTINUED)

### 22. Reconciliation of Proforma Profit (continued)

Explanation of the effect of the transition to IFRS (continued)

d) Other operating income

	<b>6 months ended <u>30 June 2004</u> £m</b>	<b>Year ended 31 December <u>2004</u> £m</b>
<b>Impact of effective interest rate adjustment</b>	(5.2)	(10.5)

e) Operating expenses

	<b>6 months ended <u>30 June 2004</u> £m</b>	<b>Year ended 31 December <u>2004</u> £m</b>
Impact of effective interest rate adjustment	0.7	1.4
Impact of statutory adjustments on the covenant to The Northern Rock Foundation	(0.1)	(0.2)
Impact of proforma adjustments on the covenant to The Northern Rock Foundation	(0.4)	(0.3)
<b>Total impact – decrease in operating expenses</b>	0.2	0.9

f) Tax on profit on ordinary activities

	<b>6 months ended <u>30 June 2004</u> £m</b>	<b>Year ended 31 December <u>2004</u> £m</b>
<b>Tax effect of IFRS proforma adjustments</b>	(2.7)	(1.9)

g) Appropriations

	<b>6 months ended <u>30 June 2004</u> £m</b>	<b>Year ended 31 December <u>2004</u> £m</b>
<b>Treatment of reserve capital instruments and subordinated liabilities coupon payment in accordance with IAS 32 and IAS 10</b>	14.9	42.6

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