

NORTHERN ROCK PLC
ANNUAL RESULTS
YEAR ENDED 31 DECEMBER 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 48, the impact of IFRS. In particular, 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 but excludes the effects of hedge accounting under IFRS, which differs from that applied under UK GAAP.

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 management's view of the underlying performance of the Group.

THIS PAGE LEFT INTENTIONALLY BLANK

NORTHERN ROCK GROUP ANNUAL RESULTS

FINANCIAL HIGHLIGHTS – PROFORMA

Key Performance Figures	2005	2005	2004
	Statutory/ Proforma	Underlying	Proforma
	£m	£m	£m
Gross lending	26,879	26,879	23,342
Net lending	14,555	14,555	12,932
Net retail funding	2,809	2,809	896
Securitisation issues	13,464	13,464	11,122
Covered bond issue	2,378	2,378	1,341
Net non-retail funding	2,317	2,317	2,770
Key Ratios – Balance Sheet	%	%	%
Balance sheet growth	27.8	24.9	24.9
Growth in risk weighted assets	15.5	15.1	17.1
Total capital ratio	12.3	12.3	13.5
Tier 1 ratio	7.7	7.7	8.0
Key Ratios – Income and Expense	%	%	%
Total income : mean risk weighted assets	3.36	3.41	3.43
Interest margin	1.03	0.97	1.07
Cost to income ratio	30.2	29.8	29.9
Cost to mean asset ratio	0.34	0.34	0.37
Impairment charge as % of mean advances to customers	0.09	0.09	0.10
Pre tax profit growth	11.9	14.3	n/a
Effective tax rate	29.3	29.3	28.9
Post tax profit growth	11.3	13.7	n/a
Attributable profit growth	10.9	13.6	n/a
Post tax return on mean equity	20.3	20.8	20.9
Post tax return on mean risk weighted assets	1.23	1.26	1.29
Post tax return on mean assets	0.41	0.42	0.47
Shareholder Information	p/share	p/share	p/share
Earnings per share	72.5	74.3	65.7
Growth in earnings per share (%)	10.4	13.1	n/a
Dividend per share – interim paid and final proposed	30.1	30.1	26.5
Growth in dividend per share (%)	13.6	13.6	13.7

NORTHERN ROCK GROUP ANNUAL 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 31 December 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 ANNUAL RESULTS

FINANCIAL INFORMATION

PROFORMA CONSOLIDATED INCOME STATEMENT

	<u>Note</u>	<u>2005</u> <u>(Unaudited)</u> <u>£m</u> <u>Statutory</u>	<u>2005</u> <u>(Unaudited)</u> <u>£m</u> <u>Underlying</u>	<u>2004</u> <u>(Unaudited)</u> <u>£m</u> <u>Proforma</u>
Interest and similar income		4,056.7	4,056.7	3,074.3
Interest expense and similar charges		(3,304.4)	(3,349.9)	(2,461.6)
Net interest income	4	752.3	706.8	612.7
Fee and commission income		157.0	157.0	127.7
Fee and commission expense		(28.9)	(28.9)	(17.1)
Other operating income		0.9	0.9	1.2
		129.0	129.0	111.8
Net hedge ineffectiveness and other unrealised fair value gains and losses	5	(56.4)	-	-
Total income	3	824.9	835.8	724.5
Administrative expenses		(226.1)	(226.1)	(198.7)
Depreciation and amortisation		(23.3)	(23.3)	(18.2)
Covenant to The Northern Rock Foundation		(24.7)	(25.2)	(22.1)
Operating expenses	6	(274.1)	(274.6)	(239.0)
Impairment losses on loans and advances	8	(56.6)	(56.6)	(48.5)
Impairment of fixed asset investments		-	-	4.5
Profit before taxation		494.2	504.6	441.5
Income tax expense		(144.9)	(147.9)	(127.7)
Profit for the year		349.3	356.7	313.8
Attributable to:				
Appropriations		48.6	48.6	42.6
Profit attributable to equity shareholders		300.7	308.1	271.2
Total		349.3	356.7	313.8
Earnings per share	11			
Basic earnings per share				
Statutory / proforma		72.5p		65.7p
Underlying			74.3p	
Diluted earnings per share				
Statutory / proforma		72.0p		65.1p
Underlying			73.7p	

Details of dividends are set out in note 10.

NORTHERN ROCK GROUP ANNUAL RESULTS

PROFORMA CONSOLIDATED BALANCE SHEET

	<u>Note</u>	<u>2005</u> <u>(Unaudited)</u> <u>£m</u>	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>
Assets			
Cash and balances at central banks		69.2	65.3
Derivative financial instruments		1,449.8	-
Loans and advances to banks		5,073.8	3,674.2
Loans and advances to customers	13	70,239.9	54,967.6
Available for sale securities			
Investment securities		5,377.1	-
Debt securities		-	4,742.2
Equity shares and other variable yield securities		-	575.6
Intangible assets		78.2	73.1
Property, plant and equipment		180.6	170.5
Deferred income tax asset		57.5	77.9
Other assets		52.9	78.2
Prepayments and accrued income		129.5	285.9
Total assets		82,708.5	64,710.5
Liabilities			
Deposits by banks		1,536.8	1,201.6
Customers accounts	15	23,672.6	20,393.7
Derivative financial instruments		846.1	-
Debt securities in issue			
Securitised notes		31,156.4	22,089.9
Covered bonds	14	3,830.4	1,339.0
Other		17,147.8	15,435.3
Other liabilities		93.8	76.6
Current taxation liabilities		43.3	60.0
Accruals and deferred income		706.3	657.3
Provisions for liabilities and charges		54.4	52.5
Subordinated liabilities		785.3	769.3
Reserve capital instruments		-	-
Tier one notes		223.9	200.0
		80,097.1	62,275.2
Equity			
Shareholders' funds			
Called up share capital		123.9	123.9
Share premium account		6.8	6.8
Capital redemption reserve		7.3	7.3
Other reserves	17	11.1	(2.0)
Retained earnings		1,426.5	1,252.9
Total equity attributable to equity shareholders		1,575.6	1,388.9
Non shareholders' funds			
Reserve capital instruments		299.3	300.0
Subordinated notes		736.5	746.4
Total non shareholders' funds		1,035.8	1,046.4
Total equity		2,611.4	2,435.3
Total equity and liabilities		82,708.5	64,710.5

NORTHERN ROCK GROUP ANNUAL RESULTS

PROFORMA CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	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
Year ended 31 December 2004									
Profit for the year		-	-	-	-	271.2	271.2	42.6	313.8
Actuarial gains and losses	17				(2.0)	-	(2.0)	-	(2.0)
Proforma adoption of IAS 32 and IAS 39 – fair value adjustments	19	-	-	-	-	(110.4)	(110.4)	-	(110.4)
Total recognised income and expense for the year		-	-	-	(2.0)	160.8	158.8	42.6	201.4
Note – reconciliation of movements in equity									
Total recognised income and expense for the year		-	-	-	(2.0)	160.8	158.8	42.6	201.4
Proforma adoption of IAS 32 and IAS 39 – debt / equity reclassifications		-	-	-	-	-	-	650.3	650.3
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	16	-	-	-	-	8.9	8.9	-	8.9
Balance at 1 January 2004		123.9	6.8	7.3	-	1,183.8	1,321.8	-	1,321.8
Balance at 31 December 2004		123.9	6.8	7.3	(2.0)	1,252.9	1,388.9	1,046.4	2,435.3

NORTHERN ROCK GROUP ANNUAL RESULTS

PROFORMA CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE AND NOTE 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
Year ended 31 December 2005									
Profit for the year		-	-	-	-	300.7	300.7	48.6	349.3
Changes in valuation of available for sale investments, net of tax	17	-	-	-	15.6	-	15.6	-	15.6
Net profits on disposal transferred to net income, net of tax	17	-	-	-	(16.6)	-	(16.6)	-	(16.6)
Net change in cash flow hedges net of tax	17	-	-	-	(8.8)	-	(8.8)	-	(8.8)
Actuarial gains and losses	17	-	-	-	(12.9)	-	(12.9)	-	(12.9)
Residual IFRS Proforma adjustments		-	-	-	(22.7)	300.7	278.0	48.6	326.6
		-	-	-	35.8	(31.0)	4.8	(10.6)	(5.8)
Total recognised income and expense for the year		-	-	-	13.1	269.7	282.8	38.0	320.8
Note – reconciliation of movements in equity									
Total recognised income and expense for the year		-	-	-	13.1	269.7	282.8	38.0	320.8
Dividends	10	-	-	-	-	(113.8)	(113.8)	-	(113.8)
Appropriations		-	-	-	-	-	-	(48.6)	(48.6)
Movement in own shares	16	-	-	-	-	17.7	17.7	-	17.7
Balance at 31 December 2004		123.9	6.8	7.3	(2.0)	1,252.9	1,388.9	1,046.4	2,435.3
Balance at 31 December 2005		123.9	6.8	7.3	11.1	1,426.5	1,575.6	1,035.8	2,611.4

NORTHERN ROCK GROUP ANNUAL 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 2004 accounts, proforma comparatives have been prepared and are set out on pages 44 to 57. 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 for 2005 are reconciled to the reported results in the following table.

	<u>Profit before taxation</u>	<u>Profit for the year</u>	<u>Profit attributable to equity shareholders</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Reported results	494.2	349.3	300.7
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses (note 5)	10.9	10.9	10.9
Impact of covenant to The Northern Rock Foundation	(0.5)	(0.5)	(0.5)
Associated taxation		(3.0)	(3.0)
Underlying results	<u>504.6</u>	<u>356.7</u>	<u>308.1</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 ANNUAL RESULTS

NOTES TO THE PROFORMA RESULTS (CONTINUED)

3. Total Income

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
Reported total income	824.9	<u>724.5</u>
Adjustment:		
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses (note 5)	10.9	
Underlying total income	<u>835.8</u>	
Mean total assets	73,709.5	58,260.6
Mean total assets (underlying)	72,883.6	n/a
Mean risk weighted assets	24,530.3	21,100.1
Underlying total income : mean total assets (underlying)	1.15%	n/a
Underlying total income : mean risk weighted assets	3.41%	n/a
Reported total income : mean total assets	1.12%	1.24%
Reported total income : mean risk weighted assets	3.36%	3.43%

Underlying total income includes the interest related fair value movements on forward exchange contracts and excludes 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.

Underlying total assets exclude the effect of fair value adjustments.

4. Net Interest Income

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.

NORTHERN ROCK GROUP ANNUAL RESULTS

NOTES TO THE PROFORMA RESULTS (CONTINUED)

4. Net Interest Income (continued)

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
Interest income		
Secured advances	3,220.2	2,397.5
Other lending	337.0	317.1
Investment securities and deposits	499.5	359.7
	<u>4,056.7</u>	<u>3,074.3</u>
Interest expense		
Retail customer accounts	841.7	689.7
Other deposits and loans	2,398.7	1,714.5
Subordinated liabilities	53.7	49.8
Reserve capital instruments	(3.7)	(5.4)
Tier one notes	14.0	13.0
Interest expense as reported	<u>3,304.4</u>	<u>2,461.6</u>
Interest implicit in forward foreign exchange contracts	45.5	
Underlying interest expense	<u>3,349.9</u>	
Net interest income as reported	<u>752.3</u>	<u>612.7</u>
Underlying net interest income	<u>706.8</u>	
Average interest earning assets excluding fair value adjustments	<u>72,730.0</u>	<u>57,222.3</u>
Average interest bearing liabilities excluding fair value adjustments	<u>70,250.7</u>	<u>55,111.8</u>
Underlying interest margin	<u>0.97%</u>	<u>n/a</u>
Underlying interest spread	<u>0.81%</u>	<u>n/a</u>
Interest margin as reported	<u>1.03%</u>	<u>1.07%</u>
Interest spread as reported	<u>0.87%</u>	<u>0.91%</u>

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 (note 5).

Included within interest income is an adjustment of £3.3m with respect to the unwind of the discount included in the impairment allowance under IFRS.

NORTHERN ROCK GROUP ANNUAL RESULTS

NOTES TO THE PROFORMA RESULTS (CONTINUED)

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

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
Fair value movements of future cashflows excluding interest flows on non-hedging derivatives	1,675.6	-
Translation gains and losses on underlying instruments	(1,693.7)	-
Net hedge ineffectiveness excluding interest flows on fair value hedges	(38.3)	-
Net hedge ineffectiveness and other unrealised fair value gains and losses	(56.4)	-
Interest implicit in forward exchange contracts (note 4)	45.5	-
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses	(10.9)	-

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 no longer meet the hedge accounting criteria and consequently have been de-designated.

The fair value movements of future cashflows excluding interest flows on such derivatives are separately identified within "Net hedge ineffectiveness 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 fair value of future cashflows excluding interest flows of the hedging derivatives and the changes in the fair value of future cashflows excluding interest flows of the underlying hedged items.

6. Operating Expenses

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

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
Staff costs	144.5	119.6
Other expenses	81.6	79.1
Depreciation and amortisation	23.3	18.2
Total operating expenses	249.4	216.9

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

	<u>2005</u>	<u>2004</u>
Full time	4,569	3,916
Part time	1,210	1,064

NORTHERN ROCK GROUP ANNUAL RESULTS

NOTES TO THE PROFORMA RESULTS (CONTINUED)

7. Interest Incentives and Fees

Included within the consolidated balance sheet are the following:

	Mortgage incentives £m	Fees receivable £m	Fees payable £m
Balance at 1 January 2004	236.9	(13.2)	108.4
Adoption of IAS 39	2.9	(168.9)	(6.1)
	<u>239.8</u>	<u>(182.1)</u>	<u>102.3</u>
Amounts charged / paid	466.2	(184.5)	121.5
Released in the year	(393.2)	128.4	(69.5)
Balance at 31 December 2004	<u>312.8</u>	<u>(238.2)</u>	<u>154.3</u>
Balance at 31 December 2004	312.8	(238.2)	154.3
Amounts charged / paid	637.2	(212.3)	132.4
Released in the year	(531.6)	158.5	(95.3)
Balance at 31 December 2005	<u>418.4</u>	<u>(292.0)</u>	<u>191.4</u>

8. Impairment Losses on Loans and Advances

	<u>2005</u> £m	<u>2004</u> £m
Impairment charge:		
Secured on residential property	7.0	(0.5)
Secured commercial	(7.1)	0.7
Unsecured	56.7	48.3
Total impairment charge	<u>56.6</u>	<u>48.5</u>
% of mean advances to customers	0.09%	0.10%
	<u>2005</u> £m	<u>2004</u> £m
Impairment allowance		
Secured on residential property	32.5	36.3
Secured commercial	4.7	12.2
Unsecured	87.1	78.4
Total impairment allowance	<u>124.3</u>	<u>126.9</u>
% of year end advances to customers	0.18%	0.23%

NORTHERN ROCK GROUP ANNUAL RESULTS

NOTES TO THE PROFORMA RESULTS (CONTINUED)

9. Residential Mortgage Arrears

	<u>2005</u>		<u>2004</u>	
	Cases	%	Cases	%
3 – 6 months	2,035	0.31	1,695	0.29
Over 6 – 12 months	540	0.08	422	0.07
Over 12 months	16	-	18	0.01
Total	<u>2,591</u>	<u>0.39</u>	<u>2,135</u>	<u>0.37</u>

10. Dividends

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

	<u>2005</u> <u>pence</u> <u>per share</u>	<u>2004</u> <u>pence</u> <u>per share</u>
2003 final dividend	-	15.8
2004 interim dividend	-	8.5
2004 final dividend	18.0	-
2005 interim dividend	9.4	-
	<u>27.4</u>	<u>24.3</u>

The proposed final dividend in respect of 2005 amounts to 20.7 pence per share (£86.4 million). These Annual Results do not reflect this dividend payable.

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
2003 final dividend	-	66.2
2004 interim dividend	-	35.2
2004 final dividend	74.7	-
2005 interim dividend	39.2	-
Less paid to ESOP trusts	<u>(0.1)</u>	<u>(0.8)</u>
	<u>113.8</u>	<u>100.6</u>

NORTHERN ROCK GROUP ANNUAL 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 (note 2) are as follows:

	<u>2005</u>	<u>2004</u>
Weighted average number of shares in issue	414.6m	413.0m
Basic EPS	72.5p	65.7p
Underlying EPS	74.3p	n/a

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	417.9m	416.6m
Diluted EPS	72.0p	65.1p
Underlying diluted EPS	73.7p	n/a

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 3.3 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.

12. Mortgage Lending

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

	<u>2005</u>	<u>2004</u>
	<u>%</u>	<u>%</u>
Type of lending		
Fixed rate (long term – over 2 years)	29	8
Fixed rate (short term – up to and including 2 years)	25	46
Discount	8	16
Cashback	1	1
Together	29	21
Lifetime	1	2
Buy to Let	7	6
Type of customer		
First time buyer	24	21
Next time buyer	39	42
Remortgage	37	37
Geographic spread		
North	15	15
Scotland	10	10
Midlands	25	24
South	50	51

NORTHERN ROCK GROUP ANNUAL RESULTS

NOTES TO THE PROFORMA RESULTS (CONTINUED)

13. Loans and Advances to Customers

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
Advances secured on residential property not subject to securitisation	24,064.5	27,192.3
Advances secured on residential property subject to securitisation	38,356.3	21,661.1
Advances secured on residential property	<u>62,420.8</u>	<u>48,853.4</u>
Commercial secured advances not subject to securitisation	743.5	1,270.6
Commercial secured advances subject to securitisation	779.8	238.4
Total other secured advances	<u>1,523.3</u>	<u>1,509.0</u>
Unsecured loans not subject to securitisation	5,788.6	4,596.1
Unsecured investment loans	507.2	9.1
	<u>70,239.9</u>	<u>54,967.6</u>

14. Covered Bonds

Included within loans and advances to customers not subject to securitisation are £4,686.1 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, which are included within debt securities in issue amounting to £3,830.4 million (31 December 2004 - £1,339.0 million). 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.

15. Analysis of Customer Accounts

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
Branch accounts	5,114.7	3,084.4
Postal accounts	8,714.3	7,554.5
Internet accounts	2,047.9	2,503.4
Offshore accounts	2,965.4	2,499.4
Telephone accounts	698.6	896.3
Legal & General branded accounts	563.5	752.2
Total retail balances	<u>20,104.4</u>	<u>17,290.2</u>
Other customer accounts	3,568.2	3,103.5
	<u>23,672.6</u>	<u>20,393.7</u>

NORTHERN ROCK GROUP ANNUAL RESULTS

NOTES TO THE PROFORMA RESULTS (CONTINUED)

16. Own Shares

The credit to retained earnings in respect of movements on own shares for the year is as follows:

	<u>2005</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>
Employee share schemes - value of employee services	10.8	7.9
Cash received on exercise of employee options and for other employee share plans	16.3	3.4
Tax impact of share based payments	0.8	3.6
Purchase of shares	(10.2)	(6.0)
	<u>17.7</u>	<u>8.9</u>

17. Other Reserves

Other reserves comprise:

	<u>2005</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>
Revaluation reserve – available-for-sale investments (a)	26.0	-
Hedging reserve – cash flow hedges (b)	-	-
Pension reserve (c)	(14.9)	(2.0)
	<u>11.1</u>	<u>(2.0)</u>

Movements in reserves are as follows:

(a) Revaluation reserve – available-for-sale investments

	<u>£m</u>
Balance at 31 December 2004	-
Adoption of IAS 39	27.0
Balance at 1 January 2005	27.0
Net gains from changes in fair value	21.3
Associated deferred income taxes	(5.7)
Net profits on disposal transferred to net income	(23.5)
Associated deferred income taxes	6.9
Balance at 31 December 2005	<u>26.0</u>

(b) Hedging reserve – cash flow hedges

	<u>£m</u>
Balance at 31 December 2004	-
Adoption of IAS 39	8.8
Balance at 1 January 2005	8.8
Net losses from changes in fair value	(12.5)
Associated deferred income taxes	3.7
Balance at 31 December 2005	<u>-</u>

NORTHERN ROCK GROUP ANNUAL RESULTS

NOTES TO THE PROFORMA RESULTS (CONTINUED)

17. Other Reserves (continued)

(c) Pension reserve

	£m
Balance at 31 December 2004	(2.0)
Total loss recognised in the Statement of Recognised Income and Expense in the year	(18.5)
Associated income taxes	5.6
Balance at 31 December 2005	(14.9)

18. Capital Structure

	2005	2004
	£m	£m
Tier 1		
Share capital	123.9	123.9
Share premium account	6.8	6.8
Capital redemption reserve	7.3	7.3
Retained earnings	1,426.5	1,252.9
Pension scheme	23.1	34.8
Reserve capital instruments	299.3	274.0
Tier one notes	223.9	200.0
Goodwill and intangible assets	(78.2)	(73.1)
Total Tier 1 capital	2,032.6	1,826.6
Upper Tier 2		
Perpetual subordinated debt	736.5	746.4
Reserve capital instruments	-	26.0
Collectively assessed impairment allowance s	119.0	83.1
Total Upper Tier 2 capital	855.5	855.5
Lower Tier 2		
Term subordinated debt	785.3	769.3
Total Tier 2 capital	1,640.8	1,624.8
Deductions	(449.8)	(374.7)
Total capital	3,223.6	3,076.7
Risk weighted assets	26,295.9	22,764.7
Tier 1 ratio (%)	7.7%	8.0%
Total capital (%)	12.3%	13.5%

19. Reconciliations Between Proforma IFRS and UK GAAP

Full details of the impact of the Group's implementation of IFRS will be included in the full 2005 Annual Financial Statements and were published in the Group's Interim Results for the 6 months ended 30 June 2005 issued on 28 July 2005. Copies of the Interim Results are available of the Group's website at www.northernrock.co.uk.

NORTHERN ROCK GROUP ANNUAL RESULTS

Contacts

City Contacts

Bob Bennett
Group Finance Director
0191 279 4366

Dave Jones
Deputy Finance Director
0191 279 4474

Richard Moorin
Investor Relations
0191 279 4093

Simon Hall
Investor Relations
0191 279 6090

Press Contacts

Brian Giles
Communications Director
0191 279 4676

Ron Stout
Assistant Director - PR
0191 279 4676

James Murgatroyd
Finsbury Limited
020 7251 3801

This document contains certain forward-looking statements with respect to certain of the plans of Northern Rock, its current goals and expectations relating to its future financial condition and performance. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Northern Rock's actual future results may differ materially from the results expressed or implied in these forward-looking statements as a result of a variety of factors, including UK domestic and global economic and business conditions, market related 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.