

**NORTHERN ROCK PLC**  
**ANNUAL RESULTS**  
**YEAR ENDED 31 DECEMBER 2005**  
**STATUTORY INFORMATION**

## NORTHERN ROCK GROUP ANNUAL RESULTS

*THIS PAGE LEFT INTENTIONALLY BLANK*

# NORTHERN ROCK GROUP ANNUAL RESULTS

## FINANCIAL HIGHLIGHTS - STATUTORY

<b>Key Performance Figures</b>	<b>2005</b>	<b>2004</b>
	<b>£m</b>	<b>£m</b>
Gross lending	26,879	23,342
Net lending	14,555	12,932
Net retail funding	2,809	896
Securitisation issues	13,464	11,122
Covered bond issue	2,378	1,341
Net non-retail funding	2,317	2,770
<b>Key Ratios – Balance Sheet</b>	<b>%</b>	<b>%</b>
Balance sheet growth	27.5	24.9
Growth in risk weighted assets	14.2	17.3
Total capital ratio	12.3	14.0
Tier 1 ratio	7.7	8.7
<b>Key Ratios – Income and Expense</b>	<b>%</b>	<b>%</b>
Total income : mean risk weighted assets	3.34	3.37
Interest margin	1.03	0.82
Cost to income ratio	30.2	30.4
Cost to mean asset ratio	0.34	0.37
Impairment charge as % of mean advances to customers	0.09	0.10
Pre tax profit growth	13.5	n/a
Effective tax rate	29.3	28.9
Post tax profit growth	12.9	n/a
Attributable profit growth	(2.8)	n/a
Post tax return on mean equity	19.3	21.6
Post tax return on mean risk weighted assets	1.22	1.45
Post tax return on mean assets	0.41	0.53
<b>Shareholder Information</b>	<b>p/share</b>	<b>p/share</b>
Earnings per share	72.5	74.9
Growth in earnings per share (%)	(3.2)	n/a
Dividend per share – interim paid and final proposed	30.1	26.5
Growth in dividend per share (%)	13.6	13.7

## NORTHERN ROCK GROUP ANNUAL RESULTS

### Notes

1. 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.
2. Balance sheet growth in 2005 represents the growth in balance sheet assets between 31 December 2004 and 31 December 2005.
3. Post tax returns are calculated by reference to profit attributable to equity shareholders.

# NORTHERN ROCK GROUP ANNUAL RESULTS

## FINANCIAL INFORMATION

### STATUTORY CONSOLIDATED INCOME STATEMENT

	<u>Note</u>	<u>2005</u> <u>(Unaudited)</u> <u>£m</u>	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>
<b>Interest and similar income</b>		4,056.7	2,989.4
<b>Interest expense and similar charges</b>		(3,304.4)	(2,522.5)
<b>Net interest income</b>	4	752.3	466.9
Fee and commission income		157.0	305.1
Fee and commission expense		(28.9)	(64.5)
Other operating income		0.9	11.7
		129.0	252.3
Net hedge ineffectiveness and other unrealised fair value gains and losses	5	(56.4)	-
<b>Total income</b>	3	824.9	719.2
Administrative expenses		(226.1)	(200.1)
Depreciation and amortisation		(23.3)	(18.2)
Covenant to The Northern Rock Foundation		(24.7)	(21.6)
Operating expenses	6	(274.1)	(239.9)
Impairment losses on loans and advances	8	(56.6)	(48.5)
Impairment of fixed asset investments		-	4.5
<b>Profit before taxation</b>		494.2	435.3
Income tax expense		(144.9)	(125.8)
<b>Profit for the year</b>		349.3	309.5
Attributable to:			
Appropriations		48.6	-
Profit attributable to equity shareholders		300.7	309.5
<b>Total</b>		349.3	309.5
Earnings per share	11		
Basic earnings per share		72.5p	74.9p
Diluted earnings per share		72.0p	74.3p

Details of dividends are set out in note 10.

# NORTHERN ROCK GROUP ANNUAL RESULTS

## STATUTORY CONSOLIDATED BALANCE SHEET

	<u>Note</u>	<u>2005</u> <u>(Unaudited)</u> <u>£m</u>	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>
<b>Assets</b>			
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	54,768.8
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	14.1
Other assets		52.9	78.2
Prepayments and accrued income		129.5	718.9
<b>Total assets</b>		<b>82,708.5</b>	<b>64,880.9</b>
<b>Liabilities</b>			
Deposits by banks		1,536.8	1,201.6
Customer 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	76.1
Current taxation liabilities		43.3	60.0
Accruals and deferred income		706.3	679.5
Provisions for liabilities and charges		54.4	52.5
Subordinated liabilities		785.3	1,515.7
Reserve capital instruments		-	300.0
Tier one notes		223.9	200.0
		<b>80,097.1</b>	<b>63,343.3</b>
<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	17	11.1	(2.0)
Retained earnings		1,426.5	1,401.6
<b>Total equity attributable to equity shareholders</b>		<b>1,575.6</b>	<b>1,537.6</b>
<b>Non shareholders' funds</b>			
Reserve capital instruments		299.3	-
Subordinated notes		736.5	-
<b>Total non shareholders' funds</b>		<b>1,035.8</b>	<b>-</b>
<b>Total equity</b>		<b>2,611.4</b>	<b>1,537.6</b>
<b>Total equity and liabilities</b>		<b>82,708.5</b>	<b>64,880.9</b>

# NORTHERN ROCK GROUP ANNUAL RESULTS

## STATUTORY CONSOLIDATED CASHFLOW STATEMENT

	<u>2005</u> <u>(Unaudited)</u> <u>£m</u>	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>
<b>Net cash inflow from operating activities</b>		
Profit before taxation	494.2	435.3
<b>Adjusted for:</b>		
Depreciation and amortisation	23.3	18.2
Impairment losses on loans and advances to customers	56.6	48.5
Other non cash movements	(303.9)	29.8
	270.2	531.8
<b>Changes in operating assets</b>		
Deposits held for regulatory or monetary control purposes	(2.0)	(6.5)
Loans and advances	(14,540.4)	(12,275.0)
Derivative financial instruments	(603.7)	-
Changes in other assets	545.7	(230.5)
	(14,600.4)	(12,512.0)
<b>Changes in operating liabilities</b>		
Net increase in debt securities in issue	13,270.4	10,953.9
Deposits from other banks	335.2	(199.5)
Due to customers	3,286.7	1,568.6
Other liabilities	(10.4)	(8.5)
Accruals and deferred income	49.7	83.1
Subordinated liabilities	-	396.1
Income taxes paid	(109.8)	(106.0)
	16,821.8	12,687.7
<b>Cashflows from investing activities</b>		
Net investment in intangible assets and property plant and equipment	(38.5)	(48.1)
Purchase of securities	(6,465.0)	(9,653.9)
Proceeds from sale and redemption of securities	6,108.4	8,900.9
	(395.1)	(801.1)
<b>Cashflows from financing activities</b>		
Equity dividends paid	(113.8)	(100.6)
Appropriations (including tax of £20.8 million)	(69.4)	-
	(183.2)	(100.6)
Net increase / (decrease) in cash and cash equivalents	1,913.3	(194.2)
Opening cash and cash equivalents	3,357.8	3,552.0
Closing cash and cash equivalents	5,271.1	3,357.8

## **NORTHERN ROCK GROUP ANNUAL RESULTS**

*THIS PAGE LEFT INTENTIONALLY BLANK*

## NORTHERN ROCK GROUP ANNUAL RESULTS

### STATUTORY 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
<b>Year ended 31 December 2004</b>									
Profit for the year		-	-	-	-	309.5	309.5	-	309.5
Actuarial gains and losses	17	-	-	-	(2.0)	-	(2.0)	-	(2.0)
<b>Total recognised income and expense for the year</b>		-	-	-	(2.0)	309.5	307.5	-	307.5
<b>Note – reconciliation of movements in equity</b>									
<b>Total recognised income and expense for the year</b>		-	-	-	(2.0)	309.5	307.5	-	307.5
Dividends	10	-	-	-	-	(100.6)	(100.6)	-	(100.6)
Movement in own shares	16	-	-	-	-	8.9	8.9	-	8.9
Balance at 31 December 2003		123.9	6.8	7.3	-	1,183.8	1,321.8	-	1,321.8
<b>Balance at 31 December 2004</b>		<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>(2.0)</b>	<b>1,401.6</b>	<b>1,537.6</b>	<b>-</b>	<b>1,537.6</b>

## NORTHERN ROCK GROUP ANNUAL RESULTS

### STATUTORY 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
<b>Year ended 31 December 2005</b>									
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)
		-	-	-	(22.7)	300.7	278.0	48.6	326.6
Adoption of IAS 32 and IAS 39 – fair value adjustments		-	-	-	35.8	(179.7)	(143.9)	-	(143.9)
<b>Total recognised income and expense for the year</b>		-	-	-	<b>13.1</b>	<b>121.0</b>	<b>134.1</b>	<b>48.6</b>	<b>182.7</b>
<b>Note – reconciliation of movements in equity</b>									
<b>Total recognised income and expense for the year</b>		-	-	-	<b>13.1</b>	<b>121.0</b>	<b>134.1</b>	<b>48.6</b>	<b>182.7</b>
Adoption of IAS 32 and IAS 39 – debt / equity reclassifications		-	-	-	-	-	-	1,035.8	1,035.8
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)	1,401.6	1,537.6	-	1,537.6
<b>Balance at 31 December 2005</b>		<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>11.1</b>	<b>1,426.5</b>	<b>1,575.6</b>	<b>1,035.8</b>	<b>2,611.4</b>

# NORTHERN ROCK GROUP ANNUAL RESULTS

## NOTES TO THE STATUTORY RESULTS

### 1. Basis of Preparation

The 2005 Preliminary Results have been prepared using International Financial Reporting Standards (“IFRS”) as approved by the International Accounting Standards Board that, under European Regulations, are effective or available for early adoption at the Group’s first reporting date under IFRS, 31 December 2005. The accounting policies adopted for use in the preparation of the 2005 Preliminary Results and for the 2005 Annual Financial Statements were included in the Interim Results released on 28 July 2005. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

### 2. Underlying Results

Underlying results for 2005 are reconciled to the IFRS statutory 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>
IFRS statutory 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 STATUTORY RESULTS (CONTINUED)

### 3. Total Income

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
<b>Reported total income</b>	824.9	<u>719.2</u>
Adjustment:		
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses (note 5)	10.9	
<b>Underlying total income</b>	<u>835.8</u>	
Mean total assets	73,794.7	58,414.7
Mean total assets (underlying)	72,968.8	n/a
Mean risk weighted assets	24,663.4	21,336.7
Underlying total income : mean total assets (underlying)	1.15%	n/a
Underlying total income : mean risk weighted assets	3.39%	n/a
Total income : mean total assets	1.12%	1.23%
Total income : mean risk weighted assets	3.34%	3.37%

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 STATUTORY RESULTS (CONTINUED)

### 4. Net Interest Income (continued)

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
<b>Interest income</b>		
Secured advances	3,220.2	2,303.4
Other lending	337.0	323.5
Investment securities and deposits	499.5	362.5
	<u>4,056.7</u>	<u>2,989.4</u>
<b>Interest expense</b>		
Retail customer accounts	841.7	689.7
Other deposits and loans	2,398.7	1,714.5
Subordinated liabilities	53.7	85.5
Reserve capital instruments	(3.7)	19.8
Tier one notes	14.0	13.0
Interest expense as reported	<u>3,304.4</u>	<u>2,522.5</u>
Interest implicit in forward foreign exchange contracts	45.5	
Underlying interest expense	<u>3,349.9</u>	
<b>Net interest income as reported</b>	<u>752.3</u>	<u>466.9</u>
<b>Underlying net interest income</b>	<u>706.8</u>	
Average interest earning assets excluding fair value adjustments	<u>72,730.0</u>	<u>57,071.3</u>
Average interest bearing liabilities excluding fair value adjustments	<u>70,250.7</u>	<u>56,008.9</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>0.82%</u>
Interest spread as reported	<u>0.87%</u>	<u>0.73%</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 statutory 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 STATUTORY 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	(18.1)	-
Net hedge ineffectiveness and other unrealised fair value gains and losses	(38.3)	-
Interest implicit in forward exchange contracts (note 4)	(56.4)	-
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses	45.5	-
	(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	80.5
Depreciation and amortisation	23.3	18.2
Total operating expenses	249.4	218.3

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 STATUTORY 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>Balance at 1 January 2004</b>	236.9	(13.2)	108.4
Amounts charged / paid	482.5	-	112.5
Released in the year	(440.1)	5.3	(37.1)
<b>Balance at 31 December 2004</b>	<u>279.3</u>	<u>(7.9)</u>	<u>183.8</u>
<b>Balance at 31 December 2004</b>	279.3	(7.9)	183.8
Adoption of IAS 39	33.5	(230.3)	(29.5)
<b>Balance at 1 January 2005</b>	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)
<b>Balance at 31 December 2005</b>	<u>418.4</u>	<u>(292.0)</u>	<u>191.4</u>

### 8. Impairment Losses on Loans and Advances

	<b><u>2005</u> £m</b>	<b><u>2004</u> £m</b>
<b>Impairment charge:</b>		
Secured on residential property	7.0	(0.5)
Secured commercial	(7.1)	0.7
Unsecured	56.7	48.3
<b>Total impairment charge</b>	<u>56.6</u>	<u>48.5</u>
% of mean advances to customers	0.09%	0.10%
	<b><u>2005</u> £m</b>	<b><u>2004</u> £m</b>
<b>Impairment allowance</b>		
Secured on residential property	32.5	36.3
Secured commercial	4.7	12.2
Unsecured	87.1	78.4
<b>Total impairment allowance</b>	<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 STATUTORY 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	(0.1)	(0.8)
	<u>113.8</u>	<u>100.6</u>

# NORTHERN ROCK GROUP ANNUAL RESULTS

## NOTES TO THE STATUTORY RESULTS (CONTINUED)

### 11. Earnings per Share

Earnings per share figures based upon reported (basic) and underlying profit on ordinary activities attributable to equity shareholders (see 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	74.9p
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	74.3p
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>
<b>Type of lending</b>		
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
<b>Type of customer</b>		
First time buyer	24	21
Next time buyer	39	42
Remortgage	37	37
<b>Geographic spread</b>		
North	15	15
Scotland	10	10
Midlands	25	24
South	50	51

# NORTHERN ROCK GROUP ANNUAL RESULTS

## NOTES TO THE STATUTORY 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	27,000.7
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>48,661.8</u>
Commercial secured advances not subject to securitisation	743.5	1,278.1
Commercial secured advances subject to securitisation	779.8	238.4
Total other secured advances	<u>1,523.3</u>	<u>1,516.5</u>
Unsecured loans not subject to securitisation	5,788.6	4,581.4
Unsecured investment loans	507.2	9.1
	<u>70,239.9</u>	<u>54,768.8</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 STATUTORY 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)
	17.7	8.9

### 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)
	11.1	(2.0)

Movements in reserves are as follows:

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

	<u>£m</u>
<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	21.3
Associated deferred income taxes	(5.7)
Net profits on disposal transferred to net income	(23.5)
Associated deferred income taxes	6.9
<b>Balance at 31 December 2005</b>	26.0

#### **(b) Hedging reserve – cash flow hedges**

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

# NORTHERN ROCK GROUP ANNUAL RESULTS

## NOTES TO THE STATUTORY RESULTS (CONTINUED)

### 17. Other Reserves (continued)

#### (c) Pension reserve

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

### 18. Capital Structure

	<u>2005</u> <u>£m</u>	<u>2004</u> <u>£m</u>
<b>Tier 1</b>		
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	1,401.6
Pension scheme	23.1	34.8
Reserve capital instruments	299.3	300.0
Tier one notes	223.9	200.0
Goodwill and intangible assets	(78.2)	(73.1)
Total Tier 1 capital	<u>2,032.6</u>	<u>2,001.3</u>
<b>Upper Tier 2</b>		
Perpetual subordinated debt	736.5	746.4
Collectively assessed impairment allowances	119.0	83.1
Total Upper Tier 2 capital	<u>855.5</u>	<u>829.5</u>
<b>Lower Tier 2</b>		
Term subordinated debt	785.3	769.3
Total Tier 2 capital	<u>1,640.8</u>	<u>1,598.8</u>
Deductions	(449.8)	(374.7)
Total capital	<u>3,223.6</u>	<u>3,225.4</u>
Risk weighted assets	<u>26,295.9</u>	<u>23,030.9</u>
Tier 1 ratio (%)	7.7%	8.7%
Total capital (%)	12.3%	14.0%

### 19. Dividend

The relevant dates for the 2005 final dividend are as follows:

Ex dividend date	26 April 2006
Record date	28 April 2006
Payment date	26 May 2006

# NORTHERN ROCK GROUP ANNUAL RESULTS

## NOTES TO THE STATUTORY RESULTS (CONTINUED)

### **20. 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 2004 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 26 January 2006. The report will also be available on the Northern Rock website [www.northernrock.co.uk](http://www.northernrock.co.uk) from 8.30am on 25 January 2006.

A presentation of the results will be given by directors on the morning of the results announcement. A live web cast of the presentation will be available on the Northern Rock website on 25 January 2006 from 9.30am. A recording of this web cast will subsequently be available on the Northern Rock website from 3.00 pm on 25 January 2006.

### **21. Significant Accounting Policies**

The Group's key accounting policies under IFRS which differ from UK GAAP will be included in the full 2005 Annual Financial Statements and were set out in the Interim Results for the 6 months ended 30 June 2005 issued on 28 July 2005. Copies of the Interim Results are available on the Group's website at [www.northernrock.co.uk](http://www.northernrock.co.uk).

### **22. Reconciliations Between 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 on the Group's website at [www.northernrock.co.uk](http://www.northernrock.co.uk).

# NORTHERN ROCK GROUP ANNUAL RESULTS

## NOTES TO THE STATUTORY RESULTS (CONTINUED)

### 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.