

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

NORTHERN ROCK GROUP INTERIM RESULTS

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NORTHERN ROCK GROUP INTERIM RESULTS

FINANCIAL HIGHLIGHTS - STATUTORY

Key Performance Figures	Six months to 30 June		Full Year
	2005	2004	2004
	£m	£m	£m
Gross lending	11,543	10,055	23,342
Net lending	5,965	5,091	12,932
Net retail funding	1,716	(163)	896
Securitisation issues	8,558	7,122	11,122
Covered bond issue	1,025	1,341	1,341
Net non-retail funding	(2,245)	(1,916)	2,770
Key Ratios – Balance Sheet	%	%	%
Balance sheet growth	11.7	9.9	24.9
Growth in risk weighted assets	2.8	2.3	17.3
Total capital ratio	12.8	15.8	14.0
Tier 1 ratio	8.2	9.2	8.7
Key Ratios – Income and Expense	%	%	%
Total income : mean risk weighted assets	3.59	3.43	3.37
Interest margin	1.07	0.85	0.82
Cost to income ratio	28.3	29.8	30.4
Cost to mean asset ratio	0.35	0.37	0.37
Impairment charge as % of mean advances to customers	0.09	0.12	0.10
Pre tax profit growth	45.4	n/a	n/a
Effective tax rate	29.3	28.9	28.9
Post tax profit growth	44.7	n/a	n/a
Attributable profit growth	31.0	n/a	n/a
Post tax return on mean equity	24.6	21.1	21.6
Post tax return on mean risk weighted assets	1.61	1.45	1.45
Post tax return on mean assets	0.55	0.53	0.53
Shareholder Information	p/share	p/share	p/share
Earnings per share	45.5	34.8	74.9
Growth in earnings per share (%)	30.7	n/a	n/a
Dividend per share	18.0	15.8	24.3
Growth in dividend per share (%)	13.9	15.3	14.6

NORTHERN ROCK GROUP INTERIM 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 30 June 2005.
3. Post tax returns are calculated by reference to profit attributable to equity shareholders.

NORTHERN ROCK GROUP INTERIM RESULTS

FINANCIAL INFORMATION

STATUTORY 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)
		£m	£m	£m
Interest and similar income		1,939.2	1,307.9	2,989.4
Interest expense and similar charges		(1,569.9)	(1,080.9)	(2,522.5)
Net interest income	4	<u>369.3</u>	<u>227.0</u>	<u>466.9</u>
Fee and commission income		63.4	134.8	305.1
Fee and commission expense		(13.5)	(27.0)	(64.5)
Other operating income		0.6	6.1	11.7
		<u>50.5</u>	<u>113.9</u>	<u>252.3</u>
Total income	3	<u>419.8</u>	<u>340.9</u>	<u>719.2</u>
Administrative expenses		(104.6)	(93.7)	(200.1)
Depreciation and amortisation		(14.3)	(7.8)	(18.2)
Covenant to The Northern Rock Foundation		(14.7)	(10.0)	(21.6)
Operating expenses	6	(133.6)	(111.5)	(239.9)
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	-	-
Profit before taxation		<u>294.0</u>	<u>202.2</u>	<u>435.3</u>
Income tax expense		(86.1)	(58.5)	(125.8)
Profit for the period		<u>207.9</u>	<u>143.7</u>	<u>309.5</u>
Represented by:				
Appropriations		19.7	-	-
Profit attributable to equity shareholders		188.2	143.7	309.5
Total		<u>207.9</u>	<u>143.7</u>	<u>309.5</u>
Earnings per share	11			
Basic earnings per share		45.5p	34.8p	74.9p
Diluted earnings per share		45.1p	34.6p	74.3p

Details of dividends are set out in note 10.

NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY CONSOLIDATED BALANCE SHEET

	<u>Note</u>	30 June 2005 (Unaudited) £m	30 June 2004 (Unaudited) £m	31 December 2004 (Unaudited) £m
Assets				
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	46,966.9	54,768.8
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	17.7	14.1
Other assets		50.6	62.7	78.2
Prepayments and accrued income		101.0	589.6	718.9
Total assets		72,459.6	57,091.7	64,880.9
Liabilities				
Deposits by banks		1,471.3	1,586.5	1,201.6
Customer 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	87.0	76.1
Current taxation liabilities		83.4	57.7	60.0
Accruals and deferred income		592.6	562.4	679.5
Provisions for liabilities and charges		54.1	48.5	52.5
Subordinated liabilities		790.2	1,515.7	1,515.7
Reserve capital instruments		-	300.0	300.0
Tier one notes		219.8	200.0	200.0
		69,907.3	55,685.0	63,343.3
Equity				
Shareholders' funds				
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	1,268.7	1,401.6
Total equity attributable to equity shareholders		1,516.5	1,406.7	1,537.6
Non shareholders' funds				
Reserve capital instruments		299.3	-	-
Subordinated notes		736.5	-	-
Total non shareholders' funds		1,035.8	-	-
Total equity		2,552.3	1,406.7	1,537.6
Total equity and liabilities		72,459.6	57,091.7	64,880.9

NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY CONSOLIDATED CASHFLOW STATEMENT

	Six months to 30 June		Full year
	<u>2005</u> <u>(Unaudited)</u> <u>£m</u>	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>	<u>2004</u> <u>(Unaudited)</u> <u>£m</u>
Net cash (outflow)/inflow from operating activities			
Profit before taxation	294.0	202.2	435.3
Adjusted for:			
Depreciation and amortisation	14.3	7.8	18.2
Impairment losses on loans and advances to customers	25.5	26.5	48.5
Other non cash movements	459.7	(24.8)	29.8
	<u>793.5</u>	<u>211.7</u>	<u>531.8</u>
Changes in operating assets			
Deposits held for regulatory or monetary control purposes	(9.5)	(7.2)	(6.5)
Loans and advances	(6,613.6)	(4,680.0)	(12,275.0)
Derivative financial instruments	478.7	-	-
Changes in other assets	614.7	(46.7)	(230.5)
	<u>(5,529.7)</u>	<u>(4,733.9)</u>	<u>(12,512.0)</u>
Changes in operating liabilities			
Net increase in debt securities in issue	3,911.4	4,679.1	10,953.9
Deposits from other banks	268.2	93.1	(199.5)
Due to customers	1,104.1	(51.9)	1,568.6
Other liabilities	113.1	35.4	(8.5)
Accruals and deferred income	(86.9)	(39.1)	83.1
Subordinated liabilities	-	396.1	396.1
Income taxes paid	(63.5)	(47.9)	(106.0)
	<u>5,246.4</u>	<u>5,064.8</u>	<u>12,687.7</u>
Cashflows from investing activities			
Net investment in intangible assets and property plant and equipment	(20.0)	(27.5)	(48.1)
Purchase of securities	(4,166.5)	(3,228.4)	(9,653.9)
Proceeds from sale and redemption of securities	3,578.0	2,813.5	8,900.9
	<u>(608.5)</u>	<u>(442.4)</u>	<u>(801.1)</u>
Cash flows from financing activities			
Equity dividends paid	(74.7)	(65.3)	(100.6)
Appropriations	(19.7)	-	-
	<u>(94.4)</u>	<u>(65.3)</u>	<u>(100.6)</u>
Net (decrease) / increase in cash and cash equivalents	<u>(192.7)</u>	<u>34.9</u>	<u>(194.2)</u>
Opening cash and cash equivalents	3,357.8	3,552.0	3,552.0
Closing cash and cash equivalents	<u>3,165.1</u>	<u>3,586.9</u>	<u>3,357.8</u>

NORTHERN ROCK GROUP INTERIM RESULTS

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NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY 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
Changes in equity for the six months ended 30 June 2004									
Balance at 1 January 2004		123.9	6.8	7.3	-	1,183.8	1,321.8	-	1,321.8
Profit for the period		-	-	-	-	143.7	143.7	-	143.7
Total recognised income and expense for the period		-	-	-	-	143.7	143.7	-	143.7
Dividends	10	-	-	-	-	(65.3)	(65.3)	-	(65.3)
Movement in own shares	17	-	-	-	-	6.5	6.5	-	6.5
Balance at 30 June 2004		123.9	6.8	7.3	-	1,268.7	1,406.7	-	1,406.7
Changes in equity for the year ended 31 December 2004									
Balance at 1 January 2004		123.9	6.8	7.3	-	1,183.8	1,321.8	-	1,321.8
Profit for the year		-	-	-	-	309.5	309.5	-	309.5
Total recognised income and expense for the period		-	-	-	-	309.5	309.5	-	309.5
Dividends	10	-	-	-	-	(100.6)	(100.6)	-	(100.6)
Movement in own shares	17	-	-	-	-	8.9	8.9	-	8.9
Pension fund	24q	-	-	-	(2.0)	-	(2.0)	-	(2.0)
Balance at 31 December 2004		123.9	6.8	7.3	(2.0)	1,401.6	1,537.6	-	1,537.6

NORTHERN ROCK GROUP INTERIM RESULTS

STATUTORY 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
Changes in equity for the six months ended 30 June 2005								
	123.9	6.8	7.3	(2.0)	1,401.6	1,537.6	-	1,537.6
Adoption of IAS 32 and IAS 39	26	-	-	35.8	(179.7)	(143.9)	1,035.8	891.9
	123.9	6.8	7.3	33.8	1,221.9	1,393.7	1,035.8	2,429.5
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)
	-	-	-	20.9	-	20.9	-	20.9
Net gains not recognised in the income statement								
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
Total recognised income and expense for the period		-	-	-	1.9	188.2	19.7	209.8
Dividends	10	-	-	-	(74.7)	(74.7)	-	(74.7)
Appropriations		-	-	-	-	-	(19.7)	(19.7)
Movement in own shares	17	-	-	-	7.4	7.4	-	7.4
Balance at 30 June 2005		123.9	6.8	7.3	35.7	1,342.8	1,516.5	2,552.3

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS

1. Basis of Preparation

These interim financial statements have been prepared on a basis consistent with International Financial Reporting Standards (“IFRS”) in issue that are effective or available for early adoption at the Group’s first annual reporting date, 31 December 2005, but do not include all the disclosures in IAS34 on interim reporting, that does not become mandatory until 2007. Based on these IFRS, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first IFRS annual financial statements are prepared for the year ending 31 December 2005. The interim financial statements require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The IFRS that will be effective or available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 are subject to change and to the issue of additional interpretation and therefore cannot be determined with certainty. Accordingly, the accounting policies are consistent with those that the directors intend to use in the next annual financial statements. The significant accounting policies are included in Note 22.

2. Underlying Results

Underlying results are reconciled to the IFRS statutory results in the following table.

	Six months to 30 June 2005		
	<u>Profit before taxation</u>	<u>Profit for the period</u>	<u>Profit attributable to equity shareholders</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
IFRS statutory 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 STATUTORY RESULTS (CONTINUED)

3. Total Income

	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>
Statutory total income	419.8	340.9	719.2
Adjustment:			
Interest implicit in forward exchange contracts	(24.3)	-	-
Underlying total income	395.5	340.9	719.2
Mean total assets	68,670.3	54,520.1	58,414.7
Mean total assets (underlying)	68,040.7	54,520.1	58,414.7
Mean risk weighted assets	23,355.5	19,868.4	21,336.7
Underlying total income : mean total assets (underlying)	1.16%	1.25%	1.23%
Underlying total income : mean risk weighted assets	3.39%	3.43%	3.37%
Reported total income : mean total assets	1.22%	1.25%	1.23%
Reported total income : mean risk weighted assets	3.59%	3.43%	3.37%

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 (see note 5).

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

4. Net Interest Income

	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>
Interest income			
Secured advances	1,524.4	995.9	2,303.4
Other lending	160.0	156.2	323.5
Investment securities and deposits	254.8	155.8	362.5
	<u>1,939.2</u>	<u>1,307.9</u>	<u>2,989.4</u>
Interest expense			
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	36.7	85.5
Reserve capital instruments	-	9.3	19.8
Tier one notes	7.2	6.1	13.0
Interest expense as reported	<u>1,569.9</u>	<u>1,080.9</u>	<u>2,522.5</u>
Interest implicit in forward foreign exchange contracts	24.3	-	-
Underlying interest expense	<u>1,594.2</u>	<u>1,080.9</u>	<u>2,522.5</u>
Net interest income as reported	<u>369.3</u>	<u>227.0</u>	<u>466.9</u>
Underlying net interest income	<u>345.0</u>	<u>227.0</u>	<u>466.9</u>
Average interest earning assets excluding fair value adjustments	<u>68,723.6</u>	<u>53,238.4</u>	<u>57,071.3</u>
Average interest bearing liabilities excluding fair value adjustments	<u>66,235.6</u>	<u>52,198.9</u>	<u>56,008.9</u>
Interest margin as reported	<u>1.07%</u>	<u>0.85%</u>	<u>0.82%</u>
Interest spread as reported	<u>0.90%</u>	<u>0.77%</u>	<u>0.73%</u>
Underlying interest margin	<u>1.00%</u>	<u>0.85%</u>	<u>0.82%</u>
Underlying interest spread	<u>0.83%</u>	<u>0.77%</u>	<u>0.73%</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 STATUTORY 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	37.7	80.5
Depreciation and amortisation	14.3	7.8	18.2
Total operating expenses	118.9	101.5	218.3

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 STATUTORY 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	Total £m
Balance at 1 January 2004	236.9	(13.2)	108.4	332.1
Amounts charged / paid	165.5	-	46.8	212.3
Released in the period	(182.8)	2.6	(14.7)	(194.9)
Balance at 30 June 2004	<u>219.6</u>	<u>(10.6)</u>	<u>140.5</u>	<u>349.5</u>

	Mortgage incentives £m	Fees receivable £m	Fees payable £m	Total £m
Balance at 1 January 2004	236.9	(13.2)	108.4	332.1
Amounts charged / paid	482.5	-	112.5	595.0
Released in the period	(440.1)	5.3	(37.1)	(471.9)
Balance at 31 December 2004	<u>279.3</u>	<u>(7.9)</u>	<u>183.8</u>	<u>455.2</u>

	Mortgage incentives £m	Fees receivable £m	Fees payable £m	Total £m
Balance at 31 December 2004	279.3	(7.9)	183.8	455.2
Adoption of IAS 39	33.5	(230.3)	(29.5)	(226.3)
Balance at 1 January 2005	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)
Balance at 30 June 2005	<u>355.6</u>	<u>(268.7)</u>	<u>164.8</u>	<u>251.7</u>

The adoption of IAS 39 adjustment comprises:

	1 January 2005 £m
Reclassified from prepayments and accrued income (note 26a)	(234.2)
Reclassified from accruals and deferred income (note 261)	7.9
	<u>(226.3)</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

8. Impairment Losses on Loans and Advances to Customers

	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>
Impairment charge:			
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
Total impairment charge	25.5	26.5	48.5
% of mean advances to customers	0.09%	0.12%	0.10%
	<u>30 June</u>	<u>30 June</u>	<u>31 December</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Impairment allowance:			
Individual			
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
Total	51.8	37.5	45.8
Collective			
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
Total	73.2	84.9	81.1
Total impairment allowance	125.0	122.4	126.9
% of period end advances to customers	0.20%	0.26%	0.23%

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

9. Residential Mortgage Arrears

	30 June <u>2005</u>		30 June <u>2004</u>		31 December <u>2004</u>	
	Cases	%	Cases	%	Cases	%
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.

	30 June <u>2005</u> pence per share	30 June <u>2004</u> pence per share	31 December <u>2004</u> pence per share
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.

	30 June <u>2005</u> £m	30 June <u>2004</u> £m	31 December <u>2004</u> £m
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 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:

	Six months to 30 June		Full Year
	<u>2005</u>	<u>2004</u>	<u>2004</u>
Weighted average number of shares in issue	413.8m	412.8m	413.0m
Basic EPS	45.5p	34.8p	74.9p
Underlying EPS	36.1p	34.8p	74.9p

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	34.6p	74.3p
Underlying diluted EPS	35.8p	34.6p	74.3p

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 STATUTORY 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>
Type of lending			
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
Type of customer			
First time buyer	21	22	21
Next time buyer	34	38	38
Remortgage	36	35	35
Buy to Let	9	5	6
Geographic spread			
North	15	15	15
Scotland	10	10	10
Midlands	25	24	24
South	50	51	51

13. Loans and Advances to Customers

	30 June <u>2005</u> <u>£m</u>	30 June <u>2004</u> <u>£m</u>	31 December <u>2004</u> <u>£m</u>
Advances secured on residential property not subject to securitisation	25,788.8	21,463.0	27,000.7
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>41,639.0</u>	<u>48,661.8</u>
Commercial secured advances not subject to securitisation	1,347.5	1,082.1	1,278.1
Commercial secured advances subject to securitisation	200.0	315.3	238.4
Total other secured advances	<u>1,547.5</u>	<u>1,397.4</u>	<u>1,516.5</u>
Unsecured loans not subject to securitisation	4,904.1	3,887.1	4,581.4
Unsecured investment loans	440.3	43.4	9.1
	<u>61,660.4</u>	<u>46,966.9</u>	<u>54,768.8</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY 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:

Securitisation company	Date of securitisation	Gross assets securitised £m	Non-recourse finance £m	Subordinated loans made by the Group £m
Residential:				
Granite Mortgages 99-1 plc	1 October 1999	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 plc	26 January 2005	4,353.9	4,227.5	71.3
Granite Master Issuer 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)		
Total residential		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		
Total commercial		233.5	162.5	14.5
Total		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 STATUTORY RESULTS (CONTINUED)

14. Securitisation (continued)

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

Balance sheet	30 June <u>2005</u> <u>£m</u>	30 June <u>2004</u> <u>£m</u>	31 December <u>2004</u> <u>£m</u>
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

	30 June <u>2005</u> <u>£m</u>	30 June <u>2004</u> <u>£m</u>	31 December <u>2004</u> <u>£m</u>
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	<u>19,008.1</u>	<u>16,232.0</u>	<u>17,290.2</u>
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 STATUTORY RESULTS (CONTINUED)

17. Own Shares

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

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

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

	30 June <u>2005</u> £m	30 June <u>2004</u> £m	31 December <u>2004</u> £m
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)
	<u>(7.3)</u>	<u>(5.6)</u>	<u>(2.9)</u>
	<u>48.0</u>	<u>52.6</u>	<u>55.3</u>

The credit to retained earnings is as follows:

	30 June <u>2005</u> £m	30 June <u>2004</u> £m	31 December <u>2004</u> £m
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)
	<u>7.4</u>	<u>6.5</u>	<u>8.9</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

18. Other Reserves

Other reserves comprise:

	30 June 2005 £m	30 June 2004 £m	31 December 2004 £m
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

	£m
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	41.9
Deferred income taxes	(12.3)
Net profits on disposal transferred to net income	(27.2)
Deferred income taxes	8.2
Balance at 30 June 2005	37.6

Hedging reserve – cash flow hedges

	£m
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	(12.4)
Deferred income taxes	3.7
Balance at 30 June 2005	0.1

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

19. Capital Structure

	30 June 2005 <u>£m</u>	30 June 2004 <u>£m</u>	31 December 2004 <u>£m</u>
Tier 1			
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	1,268.7	1,401.6
Pension scheme deficit	36.0	34.0	34.8
Reserve capital instruments	293.0	277.6	300.0
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>1,850.7</u>	<u>2,001.3</u>
Upper Tier 2			
Perpetual subordinated debt	736.5	746.4	746.4
Reserve capital instruments	6.3	22.4	-
Collective impairment allowance*	73.2	92.1	83.1
Total Upper Tier 2 capital	<u>816.0</u>	<u>860.9</u>	<u>829.5</u>
Lower Tier 2			
Term subordinated debt	790.2	769.3	769.3
Total Tier 2 capital	<u>1,606.2</u>	<u>1,630.2</u>	<u>1,598.8</u>
Deductions	<u>(526.8)</u>	<u>(299.7)</u>	<u>(374.7)</u>
Total capital	<u>3,032.6</u>	<u>3,181.2</u>	<u>3,225.4</u>
Risk weighted assets	<u>23,680.1</u>	<u>20,094.2</u>	<u>23,030.9</u>
Tier 1 ratio (%)	8.2%	9.2%	8.7%
Total capital (%)	12.8%	15.8%	14.0%

* Previously referred to as general provisions

20. Interim Dividends

Ex dividend date	27 September 2005
Record date	29 September 2005
Payment date	27 October 2005

21. 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 29 July 2005. The report will also be available on the Northern Rock website www.northernrock.co.uk from 8.30am on 28 July 2005.

A presentation of the results will be given by directors on the morning of the results announcement. A web cast of the presentation will be available on the Northern Rock website from 3.00pm on 28 July 2005.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies

Set out below are the Group's key accounting policies under IFRS which differ from UK GAAP. As a result of the Group's decision to adopt the IFRS 1 exemption and not restate comparatives for IAS 32 and IAS 39, certain accounting policies will only apply from 1 January 2005 and not to the 2004 comparatives. These policies have been denoted with an asterisk. Accounting policies for these items used in the preparation of the 2004 comparatives are as set out in the 2004 Annual Report and Accounts.

a) Accounting convention *

The Group prepares its accounts under the historical cost convention, except for the revaluation of available-for-sale financial assets, financial assets and liabilities held at fair value through profit and loss and all derivative contracts.

b) Basis of consolidation

The financial information of the Group incorporates the assets, liabilities, and results of Northern Rock plc and its subsidiary undertakings (including Special Purpose Entities). Entities are regarded as subsidiaries where the Group has the power to govern financial and operating policies so as to obtain benefits from their activities. Inter-company transactions and balances are eliminated upon consolidation.

The acquisition method of accounting is used to account for the purchase of subsidiaries.

c) Interest income and expense *

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or a financial liability, and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all amounts received or paid by the Group that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

d) Fees and commissions *

Where they are not included in the effective interest calculation, fees and commissions are generally recognised on an accruals basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related incremental direct costs) and recognised as an adjustment to the effective interest rate on the loan. Insurance commissions are recognised in the period in which they are earned.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

e) Financial instruments *

Financial assets can be classified in the following categories: loans and receivables, available-for-sale, held to maturity or financial assets at fair value through profit and loss. Management determines the classification of its investments at initial recognition. The Group measures all of its financial liabilities at amortised cost, other than those instruments which have been designated as part of a hedging relationship (see below).

i) Loans and receivables and financial liabilities at amortised cost

The Group's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the customer and where the Group has no intention of trading the loan. Both loans and receivables and financial liabilities are initially recognised at fair value including direct and incremental transaction costs. Subsequent recognition is at amortised cost using the effective interest method.

ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, principally but not exclusively investment securities intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are initially measured at fair value including direct and incremental transaction costs. Subsequent measurement is at fair value, with changes in fair value being recognised in equity except for impairment losses and translation differences, which are recognised in the income statement. Upon derecognition of the asset, or where there is objective evidence that the investment security is impaired, the cumulative gains and losses recognised in equity are removed from equity and recycled to the income statement.

iii) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments that the Group has the ability and intention to hold to maturity. They are initially measured at fair value including direct and incremental transaction costs. Subsequent measurement is at amortised cost using the effective interest method.

iv) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is so designated by management on initial recognition. Derivatives are held at fair value through profit or loss unless they are designated as cash flow hedges. The assets are initially measured at fair value, with transaction costs taken directly to the income statement. Subsequent measurement is at fair value, with changes in fair value included directly in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

f) Offsetting financial instruments *

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

g) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as assets pledged when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell, ('reverse repos'), are recorded as loans and advances to banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

h) Impairment losses on loans and advances to customers *

The Group assesses its financial assets or groups of financial assets for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and before the balance sheet date and has a reliably measurable impact on the estimated future cash flows of the financial assets or groups of financial assets.

i) Assets held at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Group about the following loss events:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal repayments;
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - i. adverse changes in the payment status of borrowers in the portfolio;
 - ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance and the amount of the loss is recognised in the income statement. In future periods the unwind of the discount is recognised within interest income.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the customer's credit rating), the previously recognised impairment loss is reversed by adjusting the impairment allowance. The amount of the reversal is recognised in the income statement.

ii) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset, or group of financial assets are impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows. The rate used to discount the cash flows is the original effective rate on the available-for-sale financial asset. The amount of the impairment loss is recognised in the income statement. This includes cumulative gains and losses previously recognised in equity which are recycled from equity to the income statement.

i) Derivative financial instruments and hedge accounting *

The Group undertakes transactions in derivative financial instruments, which include currency swaps, interest rate swaps, interest rate caps, forward rate agreements, options, foreign exchange contracts and similar instruments, for non-trading purposes.

The Group's derivative activities are entered into for the purpose of matching or eliminating risk from potential movements in interest and foreign exchange rates inherent in the Group's assets, liabilities and positions. All derivative transactions are for economic hedging purposes and so it is therefore decided at the outset which position the derivative will be hedging. Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate. Derivatives are measured initially at fair value and subsequently remeasured to fair value. Fair values are obtained from quoted market prices in active markets and where these are not available from valuation techniques including discounted cash flow models and option pricing models. Where derivatives are not designated as part of a hedging relationship, changes in fair value are recorded in the income statement. Where derivatives are designated within hedging relationships, the treatment of the fair value changes depends on the nature of the hedging relationship.

i) Cash flow hedges

A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in equity, and recycled to the income statement in the periods when the hedged item will affect profit and loss. The fair value gain or loss relating to the ineffective portion is recognised immediately in the income statement.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

ii) Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income statement over the period to maturity.

If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income statement.

iii) Embedded derivatives

Certain derivatives are embedded within other non-derivative host instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risk of the host instrument, and where the hybrid instrument is not measured at fair value, the Group separates the embedded derivative from the host instrument and measures it at fair value with the changes in fair value recognised in the income statement.

j) Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets only when the contractual right to the cash flows from the financial asset expire. The Group also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset. Where the transfer does not result in the Group transferring the right to receive the cash flows of the financial assets, but it does result in the Group assuming a corresponding obligation to pay the cash flows to another recipient, the financial assets are also accordingly derecognised.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

k) Securitisation transactions

Certain Group companies have issued debt securities in order to finance specific loans and advances to customers. Both the debt securities in issue and the loans and advances to customers remain on the Group balance sheet within the appropriate balance sheet headings unless:

- i) a fully proportional share of all or of specifically identified cash flows have been transferred to the holders of the debt securities, in which case that proportion of the assets are derecognised;
- ii) substantially all the risks and rewards associated with the assets have been transferred, in which case the assets are fully derecognised; or
- iii) if a significant proportion of the risks and rewards have been transferred, the assets are recognised only to the extent of the Group's continuing involvement.

All transactions previously recognised under UK GAAP on the basis of linked presentation have been recognised by the separate presentation of the gross assets and the related funding.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

l) Debt and equity securities in issue

Issued securities are classified as liabilities where the contractual arrangements result in the Group having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the Group. Issued securities are classified as equity where they meet the definition of equity and confer a residual interest in the Group's assets on the holder of the securities.

Financial liabilities are carried at amortised cost using the effective interest rate (see "interest income and expense"). Equity instruments are initially recognised at net proceeds, after deducting transaction costs and any related income tax. Appropriations to holders of equity securities are deducted from equity, net of any related income tax, as they become irrevocably due to the holders of the securities.

m) Foreign currency translation

The Group's financial statements are presented in sterling, which is the functional currency of the parent company. Items included in the financial statements of each of the Group's entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges. Non-monetary items measured at amortised cost and denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rate at the date of valuation. Where these are held at fair value through profit and loss, exchange differences are reported as part of the fair value gain or loss. Where they are held as available for sale, exchange differences are reported directly in equity.

n) Share-based payments

Share-based payments are accounted for on a fair value basis. The Group measures the fair value of the Long Term Incentive Plan ("LTIP") using a Monte Carlo simulation model and the fair value of the Save-As-You-Earn scheme and all other share based payment schemes using a Black-Scholes option pricing model. The fair value is recognised in the income statement over the relevant vesting period and adjusted for forfeitures, with the number of shares expected to be forfeited estimated at each balance sheet date prior to the vesting date. The impact of any revisions to estimates is reflected in the income statement, with the corresponding adjustment recognised in equity. The only exception is where the share-based payment has vesting outcomes attached to market based performance conditions such as in the case of the LTIPs. Under these circumstances, the Monte Carlo simulation model takes into account these market based performance conditions which effectively estimate the number of shares expected to vest. No subsequent adjustment is then made to the fair value charge for shares that do not vest in the event that these performance conditions are not met.

In accordance with the transitional provisions of IFRS 2 'Share-based Payments', the Group has only applied the requirements of the standard to equity settled share-based payments granted after 7 November 2002.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

o) Intangible assets

i) Goodwill

Goodwill arising on the acquisition of subsidiary companies, which is represented by the excess of fair value of the purchase consideration over the fair value of the assets acquired, is capitalised and shown as an asset in the balance sheet. It is reviewed for impairment annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amount, having been tested for impairment at 31 December 2003. Goodwill written off to reserves under UK GAAP prior to the introduction of FRS 10 "Goodwill and Intangible Assets" in 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

ii) Computer software

Costs incurred in acquiring and developing computer software for internal use are capitalised as intangible assets where the software leads to the creation of an identifiable non-monetary asset and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group from its use for a period of over one year. The software is classified as an intangible asset where it is not an integral part of the related hardware and amortised over its estimated useful life which is generally 3 to 5 years.

Costs associated with maintaining software are expensed as they are incurred.

p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks.

q) Taxation

Income tax payable on taxable profits ('current tax') is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowances is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current assets and liabilities are only offset when they arise in the same reporting tax group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

r) Pensions and employee benefits

The Company operates the Northern Rock Pension Scheme (the "Scheme") to provide retirement benefits for staff. Staff who joined the Scheme before 1 July 1999 participate in the funded, contracted out, defined benefit section of the scheme unless they opt out. Other staff, including those employed at 1 July 1999 but not members of the defined benefit section of the Scheme at that date, together with staff employed from 1 July 1999, participate in the defined contribution section of the scheme unless they opt out. The assets of both sections of the Scheme are held in a trustee-administered fund separate from the assets of Northern Rock plc.

A full actuarial valuation of the Group's defined benefit section of the scheme is undertaken every three years with interim reviews in the intervening years; these valuations are updated to 31 December each year by qualified independent actuaries. For the purpose of these annual updates, scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. Liabilities in the defined benefit section of the scheme are discounted using rates equivalent to the market yields at the balance sheet date on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The resulting net surplus or deficit is included in the Group's balance sheet. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme.

The Group's income statement includes the current service cost of providing pension benefits, the expected return on the scheme's assets, net of administration costs, and the interest cost on the scheme's liabilities. Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately through the Statement of Changes in Shareholders' Equity.

Past service costs are recognised immediately in the income statement, unless the changes to the Scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight line basis over the average vesting period.

For defined contribution plans, the Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

s) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, as appropriate. Additions and subsequent expenditure are included in the asset's carrying value or are recognised as a separate asset only when they improve the expected future economic benefits to be derived from the asset. All other repairs and maintenance are charged to the income statement in the period in which they are incurred.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

s) Property, plant and equipment (continued)

Depreciation is provided using the straight line method to allocate costs less residual values over estimated useful lives, as follows;

Freehold property	100 years
Leasehold property	Unexpired period of the lease
Plant, equipment, fixtures and fittings	
- plant	30 years
- furniture	10 years
- other	5 years
Computer equipment	
- PCs	3 years
- other	5 years
Motor vehicles	4 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the cost of freehold land can be identified separately from buildings, the land value is not depreciated. Fixed assets are subject to impairment testing, if deemed appropriate.

Assets in the course of construction are not depreciated until they have been completed and transferred to the appropriate category of property, plant and equipment. The costs of financing assets in the course of construction are not included in the costs of the assets.

t) Leases

Operating lease payments are charged to the income statement on a straight line basis unless a different systematic basis is more appropriate. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor in compensation is charged to the income statement in the period in which termination is made.

u) Share capital

i) Share issue costs

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders or paid.

iii) Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

v) Transition to IFRS

The Group's financial statements for the year ending 31 December 2005 will be the first annual financial statements that comply with IFRS. The Group has applied IFRS 1 in preparing these consolidated interim financial statements.

Northern Rock plc's transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these interim consolidated financial statements is 30 June 2005. The Group's IFRS adoption date is 1 January 2005.

In preparing these interim consolidated financial statements in accordance with IFRS 1, the Group has applied the following optional exemptions and mandatory exceptions from full retrospective application of IFRS.

Applicable optional exemptions from full retrospective application elected by the Group

Business combinations

Northern Rock has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

Fair value as deemed cost

Northern Rock has elected to measure certain items of property, plant and equipment at fair values as at 1 January 2004. The application of this exemption is detailed in note 24h.

Employee benefits

Northern Rock has elected to recognise all cumulative actuarial gains and losses on its final salary pension scheme at 1 January 2004.

Exemption from restatement of comparatives for IAS 32 and IAS 39

Northern Rock has elected to apply this exemption, with the exception in regards to the recognition of previously derecognised assets and liabilities of securitisation vehicles and inactive retail accounts in accordance with IFRS 1 paragraph 27A. It has applied previous UK GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information. The adjustments required for differences between UK GAAP and IAS 32 and IAS 39 are determined and recognised at 1 January 2005. The adjustments are detailed in note 26.

Designation of financial instruments

Northern Rock reclassified various securities as available for sale investments. The adjustments relating to IAS 32 and IAS 39 at the opening balance sheet date of 1 January 2005, the IAS 32/39 transition date, are detailed in note 26.

Share based transactions

Northern Rock has elected to apply the share based payment exemption. It applies IFRS 2 from 1 January 2004 to those share based payment schemes that were granted after 7 November 2002 but that have not vested by 1 January 2005.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

22. Significant Accounting Policies (continued)

v) Transition to IFRS (continued)

Recognition of financial assets and liabilities

Northern Rock has applied the exemption in IFRS 1 paragraph 27A to financial assets and liabilities of securitisation vehicles and to inactive retail accounts previously derecognised. All such balances previously derecognised under UK GAAP are recognised on the balance sheet at transition date.

Applicable mandatory exceptions from full retrospective application followed by the Group

Hedge accounting

Management has applied the hedge accounting exception from 1 January 2005 only if the hedge relationship meets all the hedge accounting criteria under IAS 39. The application of this exception at the opening balance sheet date of 1 January 2005 is detailed in note 26.

23. Reconciliations Between IFRS and UK GAAP

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

Summary of Equity

	<u>Note</u>	1 January 2004 £m	30 June 2004 £m	31 December 2004 £m
Total equity as reported under UK GAAP		1,339.9	1,451.9	1,541.9
Restatement of goodwill	24g	-	1.8	3.6
Reversal of pension prepayment under UK GAAP	24k	(30.6)	(29.8)	(29.0)
Restatement of retirement benefits under IAS 19	24p	(47.3)	(48.5)	(52.5)
Total Pension fund adjustment		(77.9)	(78.3)	(81.5)
Property impairment	24h	3.9	4.7	4.7
Reinstatement of de-recognised liabilities	24l	(51.7)	(51.7)	(51.7)
Dividends	24n	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	24p	19.0	25.3	31.8
Total tax effect of above		42.3	43.0	45.9
Total equity under IFRS		1,321.8	1,406.7	1,537.6

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations

1 January 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>
Assets				
Cash and balances at central banks	24a	11.6	47.2	58.8
Derivative financial instruments		-	-	-
Loans and advances to banks	24b	3,450.2	1,153.2	4,603.4
Loans and advances to customers not subject to securitisation	24c	27,355.8	(27,355.8)	-
Loans and advances to customers subject to securitisation	24d	15,678.7	(15,678.7)	-
Less: non-recourse finance	24e	(14,832.4)	14,832.4	-
		28,202.1	(28,202.1)	-
Loans and advances to customers	24f	-	41,847.4	41,847.4
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	24g	30.7	30.4	61.1
Property, plant and equipment	24h	179.1	(26.5)	152.6
Deferred income tax asset	24i	-	23.3	23.3
Other assets	24j	76.6	(5.2)	71.4
Prepayments and accrued income	24k	564.8	(30.6)	534.2
Total assets		<u>37,111.4</u>	<u>14,837.1</u>	<u>51,948.5</u>
Liabilities				
Deposits by banks		1,461.5	-	1,461.5
Customer accounts	24l	18,797.3	51.7	18,849.0
Derivative financial instruments		-	-	-
Debt securities in issue				
Securitised notes	24m	-	14,868.3	14,868.3
Covered bonds		-	-	-
Other	24m	13,060.1	(3.6)	13,056.5
Other liabilities	24n	285.0	(203.3)	81.7
Current taxation liabilities		53.8	-	53.8
Accruals and deferred income	24o	475.3	113.8	589.1
Provisions for liabilities and charges	24p	19.0	28.3	47.3
Subordinated liabilities		1,119.5	-	1,119.5
Reserve capital instruments		300.0	-	300.0
Tier one notes		200.0	-	200.0
		<u>35,771.5</u>	<u>14,855.2</u>	<u>50,626.7</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

1 January 2004	<u>Note</u>	UK GAAP <u>£m</u>	Effect of transition to IFRS <u>£m</u>	IFRS <u>£m</u>
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	24q	-	-	-
Retained earnings		1,201.9	(18.1)	1,183.8
Total equity attributable to equity shareholders	23	1,339.9	(18.1)	1,321.8
Non shareholders' funds				
Reserve capital instruments		-	-	-
Subordinated notes		-	-	-
Total non shareholders' funds		-	-	-
Total equity		1,339.9	(18.1)	1,321.8
Total equity and liabilities		<u>37,111.4</u>	<u>14,837.1</u>	<u>51,948.5</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

30 June 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>
Assets				
Cash and balances at central banks	24a	7.7	49.2	56.9
Derivative financial instruments		-	-	-
Loans and advances to banks	24b	3,339.6	1,003.5	4,343.1
Loans and advances to customers not subject to securitisation	24c	26,475.6	(26,475.6)	-
Loans and advances to customers subject to securitisation	24d	21,535.2	(21,535.2)	-
Less: non-recourse finance	24e	(20,267.5)	20,267.5	-
		27,743.3	(27,743.3)	-
Loans and advances to customers	24f	-	46,966.9	46,966.9
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	24g	28.9	38.7	67.6
Property, plant and equipment	24h	198.0	(32.2)	165.8
Deferred income tax asset	24i	-	17.7	17.7
Other assets	24j	63.5	(0.8)	62.7
Prepayments and accrued income	24k	614.9	(25.3)	589.6
Total assets		<u>36,817.3</u>	<u>20,274.4</u>	<u>57,091.7</u>
Liabilities				
Deposits by banks		1,586.5	-	1,586.5
Customer accounts	24l	18,718.4	51.7	18,770.1
Derivative financial instruments		-	-	-
Debt securities in issue				
Securitised notes	24m	-	20,282.5	20,282.5
Covered bonds	24m	1,340.8	(1.8)	1,339.0
Other	24m	10,935.4	0.2	10,935.6
Other liabilities	24n	263.4	(176.4)	87.0
Current taxation liabilities		57.7	-	57.7
Accruals and deferred income	24o	422.2	140.2	562.4
Provisions for liabilities and charges	24p	25.3	23.2	48.5
Subordinated liabilities		1,515.7	-	1,515.7
Reserve capital instruments		300.0	-	300.0
Tier one notes		200.0	-	200.0
		<u>35,365.4</u>	<u>20,319.6</u>	<u>55,685.0</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

30 June 2004	<u>Note</u>	UK GAAP <u>£m</u>	Effect of transition to IFRS <u>£m</u>	IFRS <u>£m</u>
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	24q	-	-	-
Retained earnings		1,313.9	(45.2)	1,268.7
Total equity attributable to equity shareholders	23	1,451.9	(45.2)	1,406.7
Non shareholders' funds				
Reserve capital instruments		-	-	-
Subordinated notes		-	-	-
Total non shareholders' funds		-	-	-
Total equity		1,451.9	(45.2)	1,406.7
Total equity and liabilities		<u>36,817.3</u>	<u>20,274.4</u>	<u>57,091.7</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

31 December 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>
Assets				
Cash and balances at central banks	24a	10.2	55.1	65.3
Derivative financial instruments		-	-	-
Loans and advances to banks	24b	3,305.4	368.8	3,674.2
Loans and advances to customers not subject to securitisation	24c	32,869.3	(32,869.3)	-
Loans and advances to customers subject to securitisation	24d	22,339.2	(22,339.2)	-
Less: non-recourse finance	24e	(22,103.7)	22,103.7	-
		33,104.8	(33,104.8)	-
Loans and advances to customers	24f	-	54,768.8	54,768.8
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	24g	27.1	46.0	73.1
Property, plant and equipment	24h	208.2	(37.7)	170.5
Deferred income tax asset	24i	-	14.1	14.1
Other assets	24j	69.6	8.6	78.2
Prepayments and accrued income	24k	746.9	(28.0)	718.9
Total assets		<u>42,790.0</u>	<u>22,090.9</u>	<u>64,880.9</u>
Liabilities				
Deposits by banks		1,201.6	-	1,201.6
Customer accounts	24l	20,342.0	51.7	20,393.7
Derivative financial instruments		-	-	-
Debt securities in issue				
Securitised notes	24m	-	22,089.9	22,089.9
Covered bonds	24m	1,340.8	(1.8)	1,339.0
Other	24m	15,440.8	(5.5)	15,435.3
Other liabilities	24n	275.6	(199.5)	76.1
Current taxation liabilities		60.0	-	60.0
Accruals and deferred income	24o	539.8	139.7	679.5
Provisions for liabilities and charges	24p	31.8	20.7	52.5
Subordinated liabilities		1,515.7	-	1,515.7
Reserve capital instruments		300.0	-	300.0
Tier one notes		200.0	-	200.0
		<u>41,248.1</u>	<u>22,095.2</u>	<u>63,343.3</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

31 December 2004	<u>Note</u>	UK GAAP	Effect of transition to IFRS	IFRS
		<u>£m</u>	<u>£m</u>	<u>£m</u>
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	24q	-	(2.0)	(2.0)
Retained earnings		1,403.9	(2.3)	1,401.6
Total equity attributable to equity shareholders	23	1,541.9	(4.3)	1,537.6
Non shareholders' funds				
Reserve capital instruments		-	-	-
Subordinated notes		-	-	-
Total non shareholders' funds		-	-	-
Total equity		1,541.9	(4.3)	1,537.6
Total equity and liabilities		<u>42,790.0</u>	<u>22,090.9</u>	<u>64,880.9</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

Explanation of the effect of the transition to IFRS

The following explains the material balance sheet adjustments.

a) Cash and balances at central banks

	1 January <u>2004</u> <u>£m</u>	30 June <u>2004</u> <u>£m</u>	31 December <u>2004</u> <u>£m</u>
Reclassification of Cash Ratio Deposit held with Bank of England and Central Bank of Ireland	<u>47.2</u>	<u>49.2</u>	<u>55.1</u>

The Group has reclassified the Cash Ratio Deposit held with the Bank of England and Central Bank of Ireland from loans and advances to banks to cash and balances at central banks.

b) Loans and advances to banks

	1 January <u>2004</u> <u>£m</u>	30 June <u>2004</u> <u>£m</u>	31 December <u>2004</u> <u>£m</u>
Reclassification of Cash Ratio Deposit held with Bank of England and Central Bank of Ireland	(47.2)	(49.2)	(55.1)
Reclassification of securitisation vehicle balance sheets	1,200.4	1,052.7	423.9
Total impact – increase in loans and advances to banks	<u>1,153.2</u>	<u>1,003.5</u>	<u>368.8</u>

The Group has reclassified the cash ratio deposit held with the Bank of England and Central Bank of Ireland from loans and advances to banks to cash and balances at central banks. In addition, cash held by the securitisation vehicles has been reclassified as loans and advances to banks.

c) Loans and advances not subject to securitisation

	1 January <u>2004</u> <u>£m</u>	30 June <u>2004</u> <u>£m</u>	31 December <u>2004</u> <u>£m</u>
Reclassification of loans and advances not subject to securitisation	<u>(27,355.8)</u>	<u>(26,475.6)</u>	<u>(32,869.3)</u>

The Group has reclassified loans and advances to customers not subject to securitisation as loans and advances to customers.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

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

d) Loans and advances subject to securitisation

	1 January 2004 £m	30 June 2004 £m	31 December 2004 £m
Reclassification of securitisation vehicle balance sheets	<u>(15,678.7)</u>	<u>(21,535.2)</u>	<u>(22,339.2)</u>

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used. This results in the reclassification of loans and advances subject to securitisation.

e) Non-recourse finance

	1 January 2004 £m	30 June 2004 £m	31 December 2004 £m
Reclassification of securitisation vehicle balance sheets	<u>14,832.4</u>	<u>20,267.5</u>	<u>22,103.7</u>

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used. Non-recourse finance, shown as a deduction from loans and advances to customers under UK GAAP is included in debt securities in issue under IFRS.

f) Loans and advances to customers

	1 January 2004 £m	30 June 2004 £m	31 December 2004 £m
Reclassification of loans and advances not subject to securitisation	27,355.8	26,475.6	32,869.3
Reclassification of loans and advances subject to securitisation	14,491.6	20,491.3	21,899.5
Total impact – increase in loans and advances to customers	<u>41,847.4</u>	<u>46,966.9</u>	<u>54,768.8</u>

g) Intangible assets

	1 January 2004 £m	30 June 2004 £m	31 December 2004 £m
Reclassification of computer software as intangible asset	30.4	36.9	42.4
Reversal of goodwill amortisation	-	1.8	3.6
Total impact – increase in intangible assets	<u>30.4</u>	<u>38.7</u>	<u>46.0</u>

In accordance with IAS 38, computer software has been reclassified from property, plant and equipment to intangible fixed assets. Under IFRS goodwill is not amortised, but is subject to annual impairment reviews.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

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

h) Property, plant and equipment

	1 January <u>2004</u> £m	30 June <u>2004</u> £m	31 December <u>2004</u> £m
Reclassification of computer software as intangible asset	(30.4)	(36.9)	(42.4)
Restatement of properties to fair value	3.9	4.7	4.7
Total impact – decrease in property, plant and equipment	<u>(26.5)</u>	<u>(32.2)</u>	<u>(37.7)</u>

In accordance with IAS 38, computer software has been reclassified from Property, Plant and Equipment to intangible fixed assets.

Management has applied the fair value as deemed cost exemption in respect of various properties.

i) Deferred income tax asset

	1 January <u>2004</u> £m	30 June <u>2004</u> £m	31 December <u>2004</u> £m
Impact of recognising deferred tax in accordance with IAS 12	<u>23.3</u>	<u>17.7</u>	<u>14.1</u>

The Group has recalculated deferred tax in accordance with IAS 12. IAS 12 allows a net presentation of deferred tax assets and liabilities only when certain criteria are met. This adjustment recognises the gross presentation required by IAS 12.

j) Other assets

	1 January <u>2004</u> £m	30 June <u>2004</u> £m	31 December <u>2004</u> £m
Reclassification of securitisation vehicle balance sheets	<u>(5.2)</u>	<u>(0.8)</u>	<u>8.6</u>

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

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

k) Prepayments and accrued income

	1 January	30 June	31 December
	<u>2004</u>	<u>2004</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Reversal of pension prepayment under UK GAAP	(30.6)	(29.8)	(29.0)
Reclassification of securitisation vehicle balance sheets	-	4.5	1.0
Total impact – decrease in prepayments and accrued income	<u>(30.6)</u>	<u>(25.3)</u>	<u>(28.0)</u>

Under UK GAAP there is a SSAP 24 prepayment in relation to the defined benefit section of the pension scheme. Under IAS 19 the basis of accounting for pension schemes is fundamentally different and the prepayment is no longer applicable.

l) Customer accounts

	1 January	30 June	31 December
	<u>2004</u>	<u>2004</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Restatement of derecognised liabilities	<u>51.7</u>	<u>51.7</u>	<u>51.7</u>

Previously derecognised liabilities have been restated on the balance sheet to the extent that the liability has not been contractually discharged.

m) Debt securities in issue

	1 January	30 June	31 December
	<u>2004</u>	<u>2004</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Reclassification of debt securities issued by securitisation vehicles	14,868.3	20,282.5	22,089.9
Reclassification of issue costs	(3.6)	(1.6)	(7.3)
Total impact – increase in debt securities in issue	<u>14,864.7</u>	<u>20,280.9</u>	<u>22,082.6</u>

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used. Non-recourse finance, shown as a deduction from loans and advances to customers under UK GAAP is included in debt securities in issue under IFRS.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

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

n) 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>
Restatement of dividends in accordance with IAS 10	(65.3)	(35.3)	(74.7)
Reclassification of securitisation vehicle balance sheets	(138.0)	(141.1)	(124.8)
Total impact – decrease in other liabilities	<u>(203.3)</u>	<u>(176.4)</u>	<u>(199.5)</u>

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used. IAS 10 requires that dividends are not accrued until they are approved.

o) 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>
Reclassification of securitisation vehicle balance sheets	<u>113.8</u>	<u>140.2</u>	<u>139.7</u>

IFRS requires the consolidation of securitisation vehicles, compared with linked presentation under UK GAAP.

p) Provisions for liabilities and charges

	<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>
Reversal of deferred tax recognised under UK GAAP	(19.0)	(25.3)	(31.8)
Restatement of retirement benefits obligations under IAS 19	47.3	48.5	52.5
Total impact – increase in provisions for liabilities and charges	<u>28.3</u>	<u>23.2</u>	<u>20.7</u>

IAS 19 requires that retirement benefit obligations in the defined benefit section of the pension scheme are included in the Group balance sheet.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

24. Balance Sheet Reconciliations (continued)

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

q) Other reserves

	1 January <u>2004</u> <u>£m</u>	30 June <u>2004</u> <u>£m</u>	31 December <u>2004</u> <u>£m</u>
Treatment of actuarial gains and losses on pension scheme	-	-	(2.8)
Tax effect of above	-	-	0.8
Total impact – decrease in other reserves	-	-	(2.0)

Under IAS 19 actuarial gains and losses on the pension scheme are recorded in equity.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

25. Reconciliation of Profit

Six months ended 30 June 2004	<u>Note</u>	UK GAAP <u>£m</u>	Effect of transition to IFRS <u>£m</u>	IFRS <u>£m</u>
Interest and similar income	25a	912.0	395.9	1,307.9
Interest expense and similar charges	25a	(685.0)	(395.9)	(1,080.9)
Net interest income		227.0	-	227.0
Fee and commission income	25b	128.9	5.9	134.8
Fee and commission expense	25b	(24.9)	(2.1)	(27.0)
Other operating income	25c	9.4	(3.3)	6.1
		113.4	0.5	113.9
Total income		340.4	0.5	340.9
Administrative expenses		(94.7)	1.0	(93.7)
Depreciation and amortisation		(10.4)	2.6	(7.8)
Covenant to The Northern Rock Foundation		(10.0)	-	(10.0)
Operating expenses	25d	(115.1)	3.6	(111.5)
Impairment losses on loans and advances	25e	(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	5	-	-	-
Profit before taxation		200.3	1.9	202.2
Income tax expense	25f	(58.1)	(0.4)	(58.5)
Profit for the period		142.2	1.5	143.7
Represented by:				
Appropriations		-	-	-
Profit for the period attributable to equity shareholders		142.2	1.5	143.7
Total		142.2	1.5	143.7

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

25. Reconciliation of Profit (continued)

Year ended 31 December 2004	<u>Note</u>	UK GAAP <u>£m</u>	Effect of transition to IFRS <u>£m</u>	IFRS <u>£m</u>
Interest and similar income	25a	2,035.5	953.9	2,989.4
Interest expense and similar charges	25a	(1,568.6)	(953.9)	(2,522.5)
Net interest income		466.9	-	466.9
Fee and commission income	25b	292.6	12.5	305.1
Fee and commission expense	25b	(60.1)	(4.4)	(64.5)
Other operating income	25c	31.5	(19.8)	11.7
		264.0	(11.7)	252.3
Total income		730.9	(11.7)	719.2
Administrative expenses		(203.5)	3.4	(200.1)
Depreciation and amortisation		(22.6)	4.4	(18.2)
Covenant to The Northern Rock Foundation		(21.6)	-	(21.6)
Operating expenses	25d	(247.7)	7.8	(239.9)
Impairment losses on loans and advances	25e	(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	5	-	-	-
Profit before taxation		431.2	4.1	435.3
Income tax expense	25f	(125.0)	(0.8)	(125.8)
Profit for the period		306.2	3.3	309.5
Represented by:				
Appropriations		-	-	-
Profit for the period attributable to equity shareholders		306.2	3.3	309.5
Total		306.2	3.3	309.5

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

25. Reconciliation of Profit (continued)

Explanation of the effect of the transition to IFRS

The following explains the material adjustments to the income statement.

a) Interest and similar income and 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>
Consolidation of Special Purpose Entities on a line by line basis	395.9	953.9

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used.

b) 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>
Reallocation of fees and commissions (25d)	(2.1)	(4.4)
Consolidation of Special Purpose Entities on a line by line basis	5.9	12.5
Total impact – increase in fee and commission income and expense	<u>3.8</u>	<u>8.1</u>

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used.

c) Other operating income

	6 months ended <u>30 June 2004</u> <u>£m</u>	Year ended 31 December <u>2004</u> <u>£m</u>
Consolidation of Special Purpose Entities on a line by line basis	(3.3)	(19.8)

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used.

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

25. Reconciliation of Profit (continued)

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

d) Operating expenses

	6 months ended <u>30 June 2004</u> <u>£m</u>	Year ended 31 December 2004 <u>£m</u>
Calculation of pension cost in accordance with IAS 19	(0.4)	(0.8)
Calculation of share based payments in accordance with IFRS 2	(0.3)	0.5
Consolidation of Special Purpose Entities on a line by line basis	(0.4)	(0.7)
Reallocation of fees and commissions (25b)	2.1	4.4
Reversal of property impairment provision	0.8	0.8
Reversal of goodwill amortisation charge	1.8	3.6
Total impact – decrease in operating expenses	3.6	7.8

e) Impairment losses on loans and advances

	6 months ended <u>30 June 2004</u> <u>£m</u>	Year ended 31 December 2004 <u>£m</u>
Consolidation of Special Purpose Entities on a line by line basis	(2.2)	8.0

IFRS requires the consolidation of securitisation vehicles, whereas under UK GAAP linked presentation is used.

f) Tax on profit on ordinary activities

	6 months ended <u>30 June 2004</u> <u>£m</u>	Year ended 31 December 2004 <u>£m</u>
Tax effect of IFRS adjustments	(0.4)	(0.8)

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

26. Balance Sheet Reconciliation as at 1 January 2005

	<u>Note</u>	IFRS 31 December 2004 <u>£m</u>	Effect of adoption of IAS 32 and IAS 39 <u>£m</u>	IFRS 1 January 2005 <u>£m</u>
Assets				
Cash and balances at central banks		65.3	-	65.3
Derivative financial instruments	26e	-	892.6	892.6
Loans and advances to banks		3,674.2	-	3,674.2
Loans and advances to customers not subject to securitisation		-	-	-
Loans and advances to customers subject to securitisation		-	-	-
Less: non-recourse finance		-	-	-
Loans and advances to customers	26a	54,768.8	662.6	55,431.4
Available for sale securities				
Investment securities	26b	-	4,966.1	4,966.1
Debt securities	26c	4,742.2	(4,742.2)	-
Equity shares and other variable yield securities	26d	575.6	(575.6)	-
Intangible assets		73.1	-	73.1
Property, plant and equipment		170.5	-	170.5
Deferred income tax asset	26f	14.1	62.1	76.2
Other assets	26g	78.2	(15.8)	62.4
Prepayments and accrued income	26h	718.9	(476.5)	242.4
Total assets		<u>64,880.9</u>	<u>773.3</u>	<u>65,654.2</u>
Liabilities				
Deposits by banks		1,201.6	-	1,201.6
Customer accounts	26i	20,393.7	(13.5)	20,380.2
Derivative financial instruments	26k	-	2,050.7	2,050.7
Debt securities in issue				
Securitised notes	26j	22,089.9	(1,066.8)	21,023.1
Covered bonds	26j	1,339.0	89.1	1,428.1
Other	26j	15,435.3	(253.6)	15,181.7
Other liabilities		76.1	-	76.1
Current taxation liabilities		60.0	-	60.0
Accruals and deferred income	26l	679.5	106.4	785.9
Provisions for liabilities and charges		52.5	-	52.5
Subordinated liabilities	26m	1,515.7	(738.5)	777.2
Reserve capital instruments	26n	300.0	(300.0)	-
Tier one notes	26q	200.0	7.6	207.6
		<u>63,343.3</u>	<u>(118.6)</u>	<u>63,224.7</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

26. Balance Sheet Reconciliation as at 1 January 2005

	<u>Note</u>	IFRS 31 December 2004 <u>£m</u>	Effect of adoption of IAS 32 and IAS 39 <u>£m</u>	IFRS 1 January 2005 <u>£m</u>
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	26o	(2.0)	35.8	33.8
Retained earnings		1,401.6	(179.7)	1,221.9
Total equity attributable to equity shareholders		1,537.6	(143.9)	1,393.7
Non shareholders' funds				
Reserve capital instruments		-	299.3	299.3
Subordinated notes		-	736.5	736.5
Total non shareholders' funds	26p	-	1,035.8	1,035.8
Total equity		1,537.6	891.9	2,429.5
Total equity and liabilities		<u>64,880.9</u>	<u>773.3</u>	<u>65,654.2</u>

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

26. Balance Sheet Reconciliation as at 1 January 2005 (continued)

Explanation of the effect of adoption of IAS 32 and IAS39 with effect from 1 January 2005

The following explains the material balance sheet adjustments.

a) Loans and advances to customers

	1 January 2005 £m
Impact of effective interest rate adjustment	(234.2)
Reclassification from prepayments and accrued income in relation to effective interest rate adjustment	433.0
Reclassification of financial instruments on introduction of IAS 39 and impact of fair valuing derivatives	460.5
Impact of discounting on impairment allowance	3.3
Total impact – increase in loans and advances to customers	662.6

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.

In accordance with IAS 39, impairment allowances represent the difference between the carrying value of an asset and discounted expected cash flows.

b) Investment securities

	1 January 2005 £m
Reclassification of financial instruments on introduction of IAS 39	4,966.1

c) Debt securities

	1 January 2005 £m
Reclassification of financial instruments on introduction of IAS 39	(4,742.2)

d) Equity shares and other variable yield securities

	1 January 2005 £m
Reclassification of financial instruments on introduction of IAS 39	(575.6)

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

26. Balance Sheet Reconciliation as at 1 January 2005 (continued)

e) Derivative financial instruments	1 January 2005 <u>£m</u> <hr/>
Valuation of derivative financial instruments	892.6
f) Deferred income tax	1 January 2005 <u>£m</u> <hr/>
Deferred tax effect of IAS 32 and IAS 39 adjustments	62.1
g) Other assets	1 January 2005 <u>£m</u> <hr/>
Impact of fair valuing derivatives	(15.8)
h) Prepayments and accrued income	1 January 2005 <u>£m</u> <hr/>
Reclassification of opening balances to loans and advances to customers in relation to effective interest rate adjustment	(463.2)
Impact of effective interest rate adjustment reclassified to loans and advances to customers	30.2
Impact of fair valuing derivatives	(43.5)
Total impact – decrease in prepayments and accrued income	(476.5)
i) Customer accounts	1 January 2005 <u>£m</u> <hr/>
Impact of fair valuing derivatives	(13.5)
j) Debt securities in issue	1 January 2005 <u>£m</u> <hr/>
Impact of fair valuing derivatives	(1,231.3)

NORTHERN ROCK GROUP INTERIM RESULTS

NOTES TO THE STATUTORY RESULTS (CONTINUED)

26. Balance Sheet Reconciliation as at 1 January 2005 (continued)

k) Derivative financial instruments

	1 January 2005 <u>£m</u>
Valuation of derivative financial instruments	2,050.7

l) Accruals and deferred income

	1 January 2005 <u>£m</u>
Impact of effective interest rate adjustment	(7.9)
Reversal of reserve capital instruments and subordinated liabilities coupon payment accrual in accordance with IAS 32 and IAS 10	(14.3)
Impact of fair valuing derivatives	128.6
Total impact – increase in accruals and deferred income	106.4

m) Subordinated liabilities

	1 January 2005 <u>£m</u>
Transfer to non shareholders' equity	(746.4)
Impact of fair valuing derivatives	7.9
Total impact – decrease in subordinated liabilities	(738.5)

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.

n) Reserve capital instruments

	1 January 2005 <u>£m</u>
Transfer to non shareholders' funds	(300.0)

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 STATUTORY RESULTS (CONTINUED)

26. Balance Sheet Reconciliation as at 1 January 2005 (continued)

o) Other reserves	1 January 2005 £m
Available for sale reserve	38.4
Cash flow hedge reserve	12.5
Tax impact of items credited directly to equity	(15.1)
Total impact – increase in other reserves	<hr/> 35.8 <hr/>
 p) Non shareholders' equity	 1 January 2005 £m
Transfer from subordinated liabilities	736.5
Transfer from reserve capital instruments	299.3
Total impact – increase in non shareholders' equity	<hr/> 1,035.8 <hr/>
 q) Tier one notes	 1 January 2005 £m
Impact of fair valuing derivatives	<hr/> 7.6 <hr/>

NORTHERN ROCK GROUP INTERIM RESULTS

Independent review report to Northern Rock plc

Introduction

We have been instructed by Northern Rock plc to review the financial information for the six months ended 30 June 2005 which comprises the consolidated interim balance sheet as at 30 June 2005, the related consolidated interim statements of income, cash flows and changes in equity for the six months then ended, and the related notes to the financial information including the reconciliations between IFRS and UK GAAP and the accounting policies. The proforma financial information given in the proforma section and referred to in the statutory highlights, operational review and statutory financial highlights sections does not form part of this review and in producing this report, we do not accept or assume any review responsibility for the proforma financial information.

We have read the other information contained in the statutory highlights, operational review, statutory financial highlights and the proforma section of the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards. This interim report has been prepared in accordance with the basis set out in note 1.

The accounting policies are consistent with those that the Directors intend to use in the next annual financial statements. As explained in note 1, there is, however, a possibility that the Directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with International Financial Reporting Standards. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use at 31 December 2005 are not known with certainty at the time of preparing this interim financial information.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

PricewaterhouseCoopers LLP
Chartered Accountants

Newcastle upon Tyne
28 July 2005

Notes:

- a) The maintenance and integrity of the Northern Rock plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.