

**NORTHERN ROCK PLC**  
**INTERIM RESULTS**  
**6 MONTHS ENDED 30 JUNE 2006**

## **NORTHERN ROCK GROUP INTERIM RESULTS**

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# NORTHERN ROCK GROUP INTERIM RESULTS

26 July 2006

Northern Rock plc today issued its Interim Results for the six months ended 30 June 2006.

## HIGHLIGHTS

### Operating Performance

- Total underlying assets of £88.0 billion - an increase of 23.6% from June 2005 underlying assets of £71.2 billion
- Record H1 gross lending of £14.8 billion - an increase of 28.3%, with record H1 net lending of £7.3 billion - an increase of 22.0%
- Share of UK net mortgage lending of 14.3% - similar to levels achieved in 2005
- Number of mortgage accounts 3 months or more in arrears at 0.45% (31 December 2005 - 0.39%) remain under half of industry average
- Retail savings intake of £1.7 billion - continuing to grow our retail funding franchise

### Profits

- Statutory pre tax profits of £293.9 million, up by 13.3%
- Underlying pre tax profits of £273.7 million, up by 14.4%
- Underlying attributable profits of £173.5 million, up by 16.1%

### Costs

- Cost to underlying asset ratio improved to 0.32% (2005 full year - 0.34%)
- Cost to underlying income ratio improved to 28.9% (2005 full year - 29.8%)

### Shareholder Value

- Underlying return on equity increased to 21.5% and 23.3% on a statutory basis (2005 first half - 20.7% and 21.6%)
- Underlying EPS of 41.6p (2005 first half - 36.1p) - an increase of 15.2%.
- Interim dividend per share of 10.9p (2005 first half - 9.4p) - an increase of 16.0%

### Social Responsibility

- The Northern Rock Foundation - supporting charitable causes - to receive £14.7 million

*For a reconciliation of statutory and underlying results see note 3 on page 27*

## NORTHERN ROCK GROUP INTERIM RESULTS

Adam J Applegarth, Chief Executive, said:

“Northern Rock has had a good first half in 2006. We achieved all of our strategic targets, with our performance very much in line with the guidance we gave at the beginning of the year. In addition, we have put in place some key building blocks for the longer term, including a preference share issue, a second Whinstone transaction as well as bringing on-stream major new IT systems.

Another strong lending performance has contributed to an increase in underlying profits attributable to shareholders of 16.1%, generating a return on equity of 21.5%. These results are in line with our objective of seeing our rate of asset growth trending towards the centre of the 20% +/- 5% range over the next two to three years.

Given the proven robustness of our business model, we also announce today that we are changing our strategic target range for annual growth in underlying profits attributable to shareholders upwards to 20% +/- 5%, on a like for like basis (from 15% +/- 5%) recognising that it is likely to take a couple of years to achieve the centre of this range.”

# NORTHERN ROCK GROUP INTERIM RESULTS

## OPERATIONAL REVIEW

### Introduction

Following the introduction of IFRS, the balance sheet and income statement are subject to a certain amount of volatility. This particularly arises from accounting for hedges which although economically effective are deemed under IFRS rules to be ineffective. In addition, volatility arises from fair value movements on derivatives taken out to minimise risk in respect of certain financial liabilities and instruments included in non shareholders' equity which themselves are not subject to fair value treatment. Where appropriate, such volatility is separately identified in the review of financial and operating results to enable underlying performance to be separately identified. Underlying total assets also exclude the fair value of derivative instruments due to volatility in such values.

As explained in note 2, the 2005 statutory Interim Results have been restated to reflect changes to the treatment of certain hedge accounting adjustments. There is no impact on the 2005 underlying Interim Results nor on any aspect of the 2005 full year results.

### Overview

Strong lending volumes continued in the first half of 2006 resulting in underlying total assets of £88.0 billion, an increase of 23.6% compared with 30 June 2005. Residential net lending market share at 14.3% to the end of May 2006, is similar to the 14.5% share achieved in 2005 and ahead of the 13.5% achieved in the first half of 2005. Our lending portfolios continue to be dominated by residential mortgage lending representing 89.3% of all outstanding loans (31 December 2005 - 89.5%).

The strong performance of our retail funding in the last few years continued in the first half of 2006 resulting in net inflows of £1.7 billion. Two successful securitisation issues raised £9.0 billion with a further £1.4 billion from our covered bond programme. Capital ratios have been enhanced by a second Whinstone transaction resulting in the transfer of a further £169 million of our securitisation vehicles' retained first loss risk and by the issue of £400 million of preference shares.

Profit before tax (underlying) grew by 14.4% and profit attributable to shareholders (underlying) of £173.5 million grew by 16.1% compared with the first half of last year. Underlying return on equity at 21.5% (30 June 2005 - 20.7%) remained within the top half of our strategic target range.

### Lending

During the first half of 2006 Northern Rock again achieved record levels of total lending. Total gross lending was £14,807 million, an increase of 28.3% (2005 first half - £11,543 million), with total net lending of £7,276 million, an increase of 22.0% (2005 first half - £5,965 million). Prospects for the remainder of 2006 are good, with a pipeline of £5,482 million (31 December 2005 - £5,300 million) including a residential lending pipeline of £4,955 million (31 December 2005 - £4,779 million). Improvements in processing efficiency and continued attention to customer retention means that our 2006 lending and asset growth targets are consistent with the level of pipeline at the end of the half year.

The composition of our lending portfolios has continued to be low risk. At 30 June 2006, 89.3% of our loans to customers were residential secured loans (31 December 2005 - 89.5%), 2.1% commercial secured loans (31 December 2005 - 2.2%) and 8.6% within our personal unsecured portfolios (31 December 2005 - 8.3%). This mix is not expected to change significantly going forward.

## NORTHERN ROCK GROUP INTERIM RESULTS

### Lending (continued)

An analysis of lending by portfolio is set out in the following table:

£ millions	<b>Residential</b>	<b>Commercial</b>	<b>Unsecured</b>	<b>Total</b>
<b>2006 1st Half</b>				
Gross	12,711	259	1,837	14,807
Net	6,351	72	853	7,276
<b>2005 Full Year</b>				
Gross	23,618	408	2,853	26,879
Net	13,350	5	1,200	14,555
<b>2005 2nd Half</b>				
Gross	13,394	190	1,752	15,336
Net	7,740	(26)	876	8,590
<b>2005 1st Half</b>				
Gross	10,224	218	1,101	11,543
Net	5,610	31	324	5,965

### **Residential – UK market**

The UK residential lending market was stronger in the first half of 2006 compared with the equivalent period in 2005, continuing the improvement in activity levels seen in the second half of 2005. Increased levels of housing transactions together with above anticipated levels of house price increases, skewed by central London, contributed to increases in gross residential lending of 27% and net residential lending of 25% in the first five months of the year. Whilst we do not expect this rate of growth to continue for the full year, we expect both gross and net lending to be ahead of levels seen in 2005 of £288 billion and £91 billion respectively. We also expect to see house price inflation slow in the second half of 2006 and over the medium term be in line with increases in earnings. Housing transactions are expected to be higher than 2005 partly reflecting the gradual return of first time buyers to the market. Gross lending also continues to be supported by remortgage activity which accounted for approximately 40% of gross lending by value so far this year. The gross market remains key to Northern Rock achieving its growth targets, and economic conditions remain supportive with low inflation, relatively low unemployment, low interest rates and consequently good affordability.

### **Residential – Northern Rock performance**

Against this background we achieved gross residential lending of £12,711 million (2005 first half - £10,224 million) and net residential lending of £6,351 million (2005 first half - £5,610 million), representing increases of 24.3% and 13.2% respectively. Our share of UK gross residential lending for the first five months of 2006 was 8.1% and our market share of net residential lending for the same period was 14.3%. This compares with 8.0% and 13.5% respectively for the first half of 2005, and 8.1% and 14.5% for 2005 in total. Our share of redemptions in the first five months of the year was 5.3%, identical to the first half of 2005 and again lower than our closing share of mortgage stock of around 6.7%. This continues to reflect the success of our proactive customer retention process and our fair and transparent policy of allowing existing customers, subject to contractual terms, to transfer their loan to any product available to new borrowers.

In the first half of 2006, 89% of our gross residential lending was originated via the indirect market (2005 full year - 90%) reflecting the importance of mortgage clubs and networks to our distribution strategy. Of our awards, the proportion of indirect business was 88% and has fallen further since the half year. By the end of the first half around 80% of indirect applications were being processed via our

## NORTHERN ROCK GROUP INTERIM RESULTS

### Lending (continued)

on-line trading platform, resulting in improvements in service levels as well as our own operational efficiency. We currently operate 80 loan originating branches and aim to broaden this distribution network to around 100 by 2010 via a programme of opening new branches in major urban areas.

The profile of our new lending has remained low risk despite the strong growth in volumes. In line with market activity in the first half, lending to first time buyers increased to 27% (2005 full year - 24%). 73% (2005 full year - 76%) of new customers have a proven payment track record. The impact of this trend has been to slightly increase the average Loan to Value ratio ("LTV") of lending in the first half of 2006 to 79% (2005 full year - 78%) although we have increased the proportion of new lending at or below 90% LTV to 76% (2005 full year - 70%). The average indexed LTV of our mortgage book is now 60% (31 December 2005 - 58%) which continues to provide strong cover in the event of default. We continue to have a good spread of geographic risk and minimal exposure to large loans with only 3.9% of new loans over £500,000 (2005 full year - 3.4%).

We offer customers a wide range of innovative and attractive products including lifestyle products and traditional price-led products. Our lifestyle products comprise our "together" family of products, Lifetime and residential Buy to Let mortgages. The "together" products combine a secured and unsecured loan at one interest rate and one monthly payment. Gross lending of "together" products amounted to £4.7 billion of which £4.1 billion were advances secured on residential property representing 35.4% (2005 full year - 28.7%) of new residential lending, excluding further advances. Outstanding balances of "together" mortgages increased to 22.7% of our mortgage portfolio (31 December 2005 - 20.6%).

Our Lifetime range is aimed at homeowners aged 60 and over, who wish to utilise equity in their homes to enhance their lifestyle. Such lending accounted for 1.2% of gross new residential lending (2005 full year - 1.4%), with outstanding Lifetime balances representing 2.9% (31 December 2005 - 3.0%) of our mortgage balances.

Residential Buy to Let lending is focussed on lending to private investors secured on good quality residential properties. Such lending accounted for 5.6% of our mortgage portfolio at 30 June 2006 (31 December 2005 - 4.9%) and for 8.8% (2005 full year - 7.1%) of gross new residential lending.

In total our lifestyle products, which are margin enhancing, represented 45.4% (2005 full year - 37.2%) of our gross new residential lending and 31.2% of mortgage balances at 30 June 2006 (31 December 2005 - 28.5%).

Of our traditional price-led mortgage products, fixed rate mortgages remained the most popular with 25.2% (2005 full year - 25.3%) of total new lending accounted for by short term fixed products up to two years, and 23.5% (2005 full year - 28.8%) by longer term fixes normally up to a maximum of seven years. The demand for longer term fixed rates eased as pricing increased in response to higher swap rates.

Our residential lending remains focussed on prime mortgage customers. There is a market for near or sub-prime and self certified lending, but we have avoided this market due to concerns over the risk reward relationship and we have no need to move down the credit curve to achieve our lending volumes. This on-balance sheet appetite has not changed. However, we recognise that offering such products would add to the portfolio available through our sales distribution network and so we intend to work in partnership with Lehman Brothers to introduce directly such loans to them. In return, we will earn fee income but will not take any credit risk, nor will we administer the loans post completion. We anticipate the venture will be on-stream by the end of the current year, benefiting earnings next year.

## NORTHERN ROCK GROUP INTERIM RESULTS

### Lending (continued)

#### Unsecured

Our personal unsecured credit portfolios comprise the unsecured element of “together” lending and standalone unsecured loans not linked to a residential mortgage. An analysis of lending volumes on the separate elements of our unsecured portfolios is shown in the following table:

£ millions	<b>Standalone Unsecured</b>	<b>Together Unsecured</b>	<b>Total</b>
<b>2006 1st Half</b>			
Gross	1,182	655	1,837
Net	458	395	853
<b>2005 Full Year</b>			
Gross	1,970	883	2,853
Net	744	456	1,200
<b>2005 2nd Half</b>			
Gross	1,209	543	1,752
Net	570	306	876
<b>2005 1st Half</b>			
Gross	761	340	1,101
Net	174	150	324

Standalone gross lending was at a similar level to that achieved in the second half of 2005 with net lending lower as the portfolio matures and redemptions and repayments increase.

Volumes of “together” unsecured lending have increased in conjunction with the increase in volume of “together” secured lending. At 30 June 2006 our unsecured lending balances were £6,638 million (31 December 2005 - £5,789 million) of which 41.1% (31 December 2005 - 40.0%) represented “together” unsecured advances.

#### Commercial

Competition in the commercial secured lending market has remained strong in the first half of 2006 with certain lenders remaining aggressive on price and LTV levels at which they are prepared to lend. We have continued to grow our commercial lending portfolio gradually, maintaining our emphasis on quality rather than volume of lending. Gross lending in the first half amounted to £259 million (2005 first half - £218 million) with net lending of £72 million (2005 first half - £31 million).

## NORTHERN ROCK GROUP INTERIM RESULTS

### Arrears and Possessions

The arrears position of each of our personal lending portfolios based upon accounts three months or more in arrears is set out in the following table:

	<b>Residential</b>	<b>Standalone Unsecured</b>	<b>“Together” Unsecured</b>	<b>CML Residential Average</b>
<b>30 June 2006</b>	0.45%	1.08%	0.97%	n/a
<b>31 December 2005</b>	0.39%	0.98%	0.84%	0.97%
<b>30 June 2005</b>	0.35%	1.02%	0.82%	0.87%

Note: CML Residential Average Arrears shown at 31 December 2005 and 30 June 2005. Data at 30 June 2006 not yet available. Source: Council of Mortgage Lenders.

Our residential arrears continue to be below half the industry average as reported at 31 December 2005, the latest available data. Northern Rock’s arrears data is calculated more conservatively than the CML data, for example we include all loans three months and over in the three month category whereas the CML definition is only above three months in arrears. There has been an increase in arrears in line with default levels across the sector with Northern Rock’s arrears returning to levels seen in 2004, which at the time were historic lows. One reason for the increase since the beginning of the year reflects the increased proportion of “together” lending within the residential portfolio. The “together” secured three months plus arrears increased to 0.95% (31 December 2005 - 0.84%) but remain below the industry average for secured residential loans. The three months plus arrears figure for our standard loan portfolio has increased to 0.29% (31 December 2005 - 0.26%).

At 30 June 2006, properties in possession had increased to 628, representing 0.09% of all accounts compared with 576 (0.09%) at the end of 2005. New possession cases in the first half of 2006 amounted to 838; broadly stable compared with 804 cases in the second half of 2005.

Standalone personal unsecured loan arrears remain significantly better than industry average and only marginally ahead of the position 12 months ago, reflecting our policy of attracting high quality lending and use of our bespoke scorecard to avoid lower quality lending. We continue to monitor and adjust our scorecard ratings in response to tighter conditions in the unsecured market ensuring a balanced approach to price, volume and risk. Unsecured loans within the “together” brand continued to perform in line with the “together” secured advances and similar to traditional residential secured loans.

At 30 June 2006, only 3 of our commercial loans (0.26% of accounts) with balances outstanding of £3.2 million were three months or more in arrears compared with 10 accounts (0.42%) with outstanding balances of £5.8 million at 31 December 2005.

## NORTHERN ROCK GROUP INTERIM RESULTS

### **Funding**

Northern Rock has established four distinct funding arms enabling it to attract funds from a wide range of customers and counterparties on a global basis. Flows of new funding and closing balances are shown in the following table:

£ millions	<b>Retail</b>	<b>Non-Retail</b>	<b>Securitisation</b>	<b>Covered Bonds</b>
<b>2006 1st Half</b>				
Net flow	1,666	(2,329)	5,834	1,382
Closing balances	21,773	19,570	36,334	4,965
<b>2005 Full Year</b>				
Net flow	2,809	2,317	8,831	2,378
Closing balances	20,104	22,253	31,156	3,830
<b>2005 2nd Half</b>				
Net flow	1,093	4,562	2,693	1,353
Closing balances	20,104	22,253	31,156	3,830
<b>2005 1st Half</b>				
Net flow	1,716	(2,245)	6,138	1,025
Closing balances	19,008	17,520	27,706	2,430

Note: Net flows represent net cashflows excluding fair value adjustments. Closing balances are stated including fair value adjustments.

### **Retail**

Retail funding comprised a net inflow of funds of £1,666 million including interest credited of £314 million and builds on the successful funding in 2005, again demonstrating the strength and diversity of our retail franchise.

Funding during the six months was largely into our 30 day Silver Savings notice account. Balances in our Ireland based operation rose to £1,341 million (31 December 2005 - £1,026 million), with £2,218 million (31 December 2005 - £1,940 million) in our Guernsey based off-shore vehicle. We intend to supplement our retail offshore activities by opening a new retail funding operation in Denmark early in 2007.

### **Non-Retail**

Our non-retail funding provides a balanced mixture of short and medium term funding with increasing diversification of our global investor base. As in 2005, demands on our non-retail funding programmes were restrained during the first half due to the volumes taken from our other funding arms, resulting in a net outflow of £2.3 billion of non-retail funding.

During the first half we raised £2.0 billion medium term wholesale funds from the US, Europe, the Far East and Australia. This included US\$2.0 billion Extendible Quarterly Securities sold to domestic US investors and A\$1.2 billion raised under a newly established Australian debt programme, targeted at both domestic Australian investors and the Far East. This transaction was the largest debut deal in this market for a single A rated financial institution and demonstrates our strategy for diversification of Northern Rock's investor base.

# NORTHERN ROCK GROUP INTERIM RESULTS

## Funding (continued)

### **Securitisation**

Funding through securitisation remains an integral part of Northern Rock's funding strategy. During the first half of 2006 two residential mortgage issues were completed raising £9.0 billion through our Granite vehicles. The January deal at £6.0 billion was our largest to date. Diversification of our investor base continued with 75% of the securitised bonds being issued in US dollars or euros. The characteristics of the mortgages securitised, in terms of product type, LTV and geographic distribution remain similar to those of our non-securitised mortgages.

We have continued to see the spreads on our securitisation deals improve, with the May transaction achieving our cheapest pricing to date, over 10bps cheaper than the maturing deals in part being replaced.

At 30 June 2006 advances to customers subject to securitisation, including the Whinstone transactions, amounted to £36.6 billion (31 December 2005 - £39.1 billion).

### **Covered Bond**

In the first half of 2006 we raised €2.0 billion (£1.4 billion) from a fourth issue from our €10 billion programme established in 2004. This provided further diversification of the investor base as around a third of the participants were new to Northern Rock. The covered bond is secured by a pool of ring-fenced residential mortgages.

## Assets

Total assets on a statutory and underlying basis (excluding fair value adjustments) are set out in the following table:

£ millions	30 June 2006	30 June 2005	31 December 2005
Statutory	88,821	72,435	82,709
Underlying	88,035	71,211	81,057

On a statutory basis, total assets are 7.4% higher than at the previous year end and 22.6% higher than 12 months ago. On an underlying basis, growth in total assets was 8.6% and 23.6% respectively.

## Treasury

Our Treasury operation continues to raise wholesale funds, manage interest rate and currency risks, and manage a portfolio of investments primarily for liquidity purposes. It is not a separate profit centre and does not operate trading portfolios. At 30 June 2006, 96% (31 December 2005 - 97%) of our Treasury investment portfolios comprised assets which are rated single A or better, continuing our strategy of seeking security and not increasing credit risk. We continue to have no exposure to emerging markets or non-investment grade debt.

## NORTHERN ROCK GROUP INTERIM RESULTS

### Total Income and Net Interest Income

The following tables show net interest income and total income on a statutory and underlying basis (see notes 5 and 6). The underlying basis excludes volatile hedge ineffectiveness as management considers that our hedging is economically effective and that movements in fair value on individual hedges and underlying instruments will offset over time and do not form part of operational performance.

<b>Statutory basis</b>	<b>6 months ended</b>		<b>Year ended</b>
£ millions	<b>30 June 2006</b>	<b>30 June 2005</b>	<b>31 December 2005</b>
Net interest income	401.9	369.3	752.3
Other income	77.7	50.5	129.0
Hedge ineffectiveness	8.5	(1.3)	(56.4)
<b>Total income</b>	<b>488.1</b>	<b>418.5</b>	<b>824.9</b>

<b>Underlying basis</b>	<b>6 months ended</b>		<b>Year ended</b>
£ millions	<b>30 June 2006</b>	<b>30 June 2005</b>	<b>31 December 2005</b>
Net interest income	389.2	345.0	706.8
Other income	77.7	50.5	129.0
<b>Total income</b>	<b>466.9</b>	<b>395.5</b>	<b>835.8</b>

On a statutory basis total income in the first half of 2006 amounted to £488.1 million representing an increase of 16.6% over total income in the first half of 2005. On this basis the ratio of total income to mean total assets at 1.14% in the first half compares with the 2005 full year and half year ratios of 1.12% and 1.22%. Total income as a proportion of mean risk weighted assets at 3.65% compares with the 2005 full year and half year ratios of 3.34% and 3.58%.

On an underlying basis total income in the first half of 2006 amounted to £466.9 million representing an increase of 18.1% over underlying total income in the first half of 2005. On this basis the ratio of total income to underlying mean total assets at 1.10% in the first half compares with the 2005 full year and half year ratios of 1.15% and 1.16%. Total underlying income as a proportion of underlying mean risk weighted assets at 3.49% compares with the 2005 full year and half year ratios of 3.41% and 3.41%.

Underlying interest spread at 0.75% in the first half compares with the 2005 full year and half year ratios of 0.81% and 0.80% on an underlying basis. On this basis, interest spread is 6bps lower than the full year in 2005 and 7bps lower than in the second half of last year. This reduction is primarily attributable to the costs of the Whinstone transactions and the effect of the Libor Bank Base Rate differential. The interest costs in respect of Whinstone are offset by containing the growth in the appropriation line by not having to raise additional Tier 2 capital resulting in the impact on profit attributable to shareholders being minimal. During the first half of 2006, 3 month Libor remained on average 14bps higher than Bank Base Rate compared with 7bps in the second half of 2005 and so has continued to adversely affect the price of our securitisation and non-retail funding. Mortgage spreads have remained the same as throughout all of 2005. Total spreads on all loans to customers were lower by 3bps compared with 2005, due to tighter pricing on commercial and unsecured lending.

At 30 June 2006 the net value of fees deferred to future periods amounts to £324.2 million, compared with £292.0 million at 31 December 2005 and £268.7 million at 30 June 2005. This deferred income returns to the income statement over the life of loans, reducing the future dependence of income growth on volume growth.

Other income primarily comprises insurance commission generated on sales of third party products such as building and contents and payment protection insurance together with administration fees not

## NORTHERN ROCK GROUP INTERIM RESULTS

### **Total Income and Net Interest Income (continued)**

included within interest margin. Other income at £77.7 million was similar to the £78.5 million achieved in the second half of 2005.

### **Costs**

Total operating expenses amounted to £135.0 million representing an increase of 13.5% over the £118.9 million in the first half of 2005. The increase of 13.5% compares with an increase in underlying assets of 23.6% over the twelve months and a rise in underlying total income of 18.1%, resulting in a cost to underlying asset ratio of 0.32% (30 June 2005 - 0.35%) and cost to underlying income ratio of 28.9% (30 June 2005 - 30.1%).

Our cost performance is in line with achieving for the full year the bottom of our strategic target of cost growth being 1/2 to 2/3rds the rate of growth of assets. We also expect cost growth to be noticeably lower than either income or profit growth leading to falling cost to underlying income and cost to underlying asset ratios. This is despite substantial expenditure on new IT systems (particularly for self-service processing for new and retained customers) and spend on our central administration sites.

### **Social Responsibility - The Northern Rock Foundation**

Northern Rock donates 5% of pre tax profit to The Northern Rock Foundation under a deed of covenant. Such donations are used to support community and charitable causes mainly in the North East of England and Cumbria. The covenant from 2006 first half profits amounts to £14.7 million (2005 first half - £14.7 million), resulting in donations of approximately £160 million since its inception in 1997 as an integral part of Northern Rock's conversion to a plc.

### **Loan Loss Impairment**

The charge for loan loss impairment amounted to £44.5 million for the first half (2005 first half - £25.5 million) representing 0.12% of mean advances to customers (2005 first half - 0.09%). The impairment allowance coverage of total loans and advances to customers at 17bps remains similar to the 18bps coverage at 31 December 2005.

The combination of high quality lending, low interest rates, low arrears and continued strong average LTV of the portfolio have continued to contain the levels of loan loss impairment provisions required for residential mortgages. Loan losses have increased in line with higher levels of possessions and a slowdown in house price inflation. This impact is reflected in an increased impairment charge maintaining the impairment allowance coverage at 5bps.

The growth in loan loss impairment provision balances against our personal credit portfolios reflects the combined effects of the growth in balances, the maturing nature of the portfolios and the impact of better quality newer standalone unsecured lending following revisions to credit acceptance criteria. As a result, total loan loss impairment provision balances for these portfolios have increased to £92.6 million (31 December 2005 - £87.1 million) with total cover of 1.38% (31 December 2005 - 1.48%), well below industry average in line with lower than industry average arrears.

We expect to see a lower impairment charge in the second half than in the first half of 2006, although the extent of the reduction is likely to be affected by the levels of personal bankruptcies and individual voluntary arrangements. Whilst we have seen an increase in such arrangements in the last 12 months, the impact continues to be mitigated by improved collection activity and underwriting policies.

# NORTHERN ROCK GROUP INTERIM RESULTS

## Hedge Ineffectiveness

Following the introduction of IFRS all derivatives entered into by Northern Rock are recorded on the balance sheet with any fair value movements being taken to the income statement. Where effective hedge relationships can be established, the movement in the fair value of the derivative instrument is offset in full or in part by opposite movements in fair value of the underlying instrument being hedged. Any ineffectiveness arising from different movements in fair value will offset over time and so any recorded ineffectiveness in any accounting period is excluded from underlying results in that accounting period.

In addition, Northern Rock enters into certain derivative contracts, which although efficient economically, cannot be included in effective hedge accounting relationships. Consequently, although the implicit interest cost of the underlying instrument and associated derivative are included in net interest income in the income statement, future fair value movements on such derivatives are recorded in "Net hedge ineffectiveness and other fair value gains and losses" on the face of the income statement and are excluded from underlying results. The same treatment also applies to the revaluation at each balance sheet date of economically hedged foreign currency liabilities.

The over-riding objective of the presentation of underlying results is to show a more appropriate net interest /cost of hedged instruments and to exclude future fair value adjustments from current performance measurement.

In the first half of 2006 the income statement shows "Net hedge ineffectiveness and other fair value gains and losses" as a gain of £8.5 million (2005 first half - £1.3 million loss (restated - see note 2)). This increases to £21.2 million gain (2005 first half - £23.0 million gain (restated - see note 2)) after the cost of interest implicit in forward exchange contracts is transferred to underlying net interest income.

## Taxation

The effective tax rate for the first half was 29.2% (30 June 2005 - 29.3%). We continue to anticipate, with a corporation tax rate of 30%, that the ongoing effective tax rate will trend towards 30.0% in the medium term.

## Profits and EPS

Details of profit before tax, profit attributable to shareholders and earnings per share on statutory and underlying bases are set out in the following tables:

<b>Statutory basis</b>	<b>6 months ended</b>		<b>Year ended</b>
	<b>30 June 2006</b>	<b>30 June 2005</b>	<b>31 December 2005</b>
PBT £m	293.9	259.4	494.2
Attributable profit £m	187.8	163.7	300.7
EPS p/share	45.1	39.6	72.5

  

<b>Underlying basis</b>	<b>6 months ended</b>		<b>Year ended</b>
	<b>30 June 2006</b>	<b>30 June 2005</b>	<b>31 December 2005</b>
PBT £m	273.7	239.2	504.6
Attributable profit £m	173.5	149.4	308.1
EPS p/share	41.6	36.1	74.3

The reconciliation of underlying results is set out in note 3 of the Interim Results (page 27).

## NORTHERN ROCK GROUP INTERIM RESULTS

### **Profits and EPS (continued)**

Statutory profit before tax of £293.9 million for the six months ended 30 June 2006 represents an increase of 13.3% over the equivalent statutory figure for 2005. Statutory profit attributable to shareholders for the first half of 2006 was £187.8 million, an increase of 14.7% over the 2005 statutory result for the same period.

Compared with the 2005 first half underlying results, the underlying 2006 profit before tax of £273.7 million represents an increase of 14.4%, with underlying attributable profit rising by 16.1% to £173.5 million.

Return on equity for the first half of 2006 was 23.3% on a statutory basis and 21.5% on an underlying basis compared with 21.6% in the first half of 2005 on a statutory basis and 20.7% on an underlying basis.

### **Dividends**

Maintaining our policy of increasing dividends in line with sustainable growth in profit attributable to shareholders, the proposed interim dividend is 10.9p per share payable on 27 October 2006 to shareholders on the register on 29 September 2006, a 16.0% increase over the 2005 interim dividend of 9.4p.

### **Capital**

At 30 June 2006 total capital amounted to £3,656 million resulting in a total capital ratio of 13.4%, comfortably above regulatory and internal requirements. Tier 1 capital was £2,490 million and the Tier 1 ratio 9.2%. The equivalent ratios at 31 December 2005 were 12.3% and 7.7% respectively.

Tier 1 capital and total capital have been enhanced by the issue on 29 June 2006 of £400 million (£397 million net of issue costs) of perpetual non-cumulative callable preference shares. Dividends on these shares are discretionary and subject to Board approval will be first paid on 4 July 2007 and then annually thereafter at a rate of 6.8509%. The issue supports the future growth of lending as well as improving the mix of our capital base.

In the first half we also completed a second Whinstone transaction transferring £169 million of the reserve funding risk relating to the 2005 and the first 2006 Granite residential mortgage securitisations to third party investors. The Whinstone transactions reduce the level of core capital required under credit rating assessments of required capital as well as the regulatory capital deduction in respect of the reserve funds, thereby enhancing capital efficiency and more closely aligning regulatory and credit rating capital.

Following the submission in December 2005 of our application to use the Retail Internal Ratings Based approach to Basle II we have continued to assess our Basle II systems in response to the FSA's CP06/3 and emerging interpretation of requirements. We continue to aim for adoption of Basle II with effect from 1 January 2007 which if achieved will be ahead of the majority of the sector, which is not expected to adopt Basle II until 1 January 2008. As a low risk lender we continue to anticipate significant savings in regulatory credit risk capital under Pillar I which will be partly offset by Pillar II requirements. Realisation of the benefits will be phased in over the three year transition period in conjunction with our internal and rating agency assessments of our capital requirements.

## NORTHERN ROCK GROUP INTERIM RESULTS

### Outlook

The first half of 2006 saw strong mortgage lending on the back of higher levels of housing transactions and house price inflation. Although we expect growth in lending to moderate in the second half we remain comfortable with our forecast of a £300 billion gross UK residential lending market for both 2006 and 2007.

Our view of the economy is that with rising worldwide interest rates, higher energy costs and higher European unemployment, the UK will experience a slowing economy over the next few years. This is likely to result in a moderate deterioration in credit risk across the retail banking sector. Our low risk appetite to such risk means that we expect our residential arrears to remain below half the industry average.

We confirm our strategic asset growth target of 20% +/- 5%. We are performing towards the top of this range but expect to move towards the centre over the next couple of years. In addition, as we see our underlying profits attributable to shareholders move through the centre of the existing 15% +/- 5% range we are lifting this target on a like for like basis to 20% +/- 5%, aiming to move towards the centre of this new range over the medium term.

The range of underlying attributable profit expectations for 2006, excluding any fair value and hedge accounting gains or losses, as provided by 18 of the major bank research analysts, is £339 million to £363 million, with a mean of £355 million, growth of 15.2% compared to the 2005 underlying figure. Northern Rock remains comfortable with this consensus mean.

# NORTHERN ROCK GROUP INTERIM RESULTS

## FINANCIAL HIGHLIGHTS

Key Performance Figures	Underlying			Statutory		
	Six months to	Full	Full	Six months to	Full	Full
	30 June	2005	2005	30 June	2005	2005
	2006	2005	2005	2006	2005	2005
	£m	£m	£m	£m	£m	£m
Gross lending	14,807	11,543	26,879	14,807	11,543	26,879
Net lending	7,276	5,965	14,555	7,276	5,965	14,555
Net retail funding	1,666	1,716	2,809	1,666	1,716	2,809
Securitisation issues	9,020	8,558	13,464	9,020	8,558	13,464
Covered bond issues	1,382	1,025	2,378	1,382	1,025	2,378
Net non-retail funding	(2,329)	(2,245)	2,317	(2,329)	(2,245)	2,317
<b>Key Ratios – Balance Sheet</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Balance sheet growth	8.6	10.0	24.9	7.4	11.6	27.5
Risk weighted assets growth	3.5	4.0	15.5	3.5	2.8	14.2
Total capital ratio	13.4	12.7	12.3	13.4	12.7	12.3
Tier 1 ratio	9.2	8.1	7.7	9.2	8.1	7.7
<b>Key Ratios – Income and Expense</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Total income : mean risk weighted assets	3.49	3.41	3.41	3.65	3.58	3.34
Interest margin	0.89	0.97	0.97	0.92	1.04	1.03
Cost to income ratio	28.9	30.1	29.8	27.7	28.4	30.2
Cost to mean asset ratio	0.32	0.35	0.34	0.31	0.35	0.34
Impairment charge as % of mean advances to customers	0.12	0.09	0.09	0.12	0.09	0.09
Impairment charge as % of mean risk weighted loans and advances to customers	0.40	0.27	0.28	0.40	0.27	0.28
Pre tax profit growth	14.4	13.3	14.3	13.3	28.3	13.5
Effective tax rate	29.2	29.3	29.3	29.2	29.3	29.3
Post tax profit growth	14.6	12.7	13.7	13.5	27.6	12.9
Attributable profit growth	16.1	10.6	13.6	14.7	13.9	(2.8)
Post tax return on mean equity	21.5	20.7	20.8	23.3	21.6	19.3
Post tax return on mean risk weighted assets	1.30	1.29	1.26	1.40	1.40	1.22
<b>Shareholder Information</b>						
Earnings per share (pence)	41.6	36.1	74.3	45.1	39.6	72.5
Growth in earnings per share (%)	15.2	10.4	13.1	13.9	13.8	(3.2)
Dividend per share – relating to period (pence)	10.9	9.4	30.1	10.9	9.4	30.1
Growth in dividend per share (%)	16.0	10.6	13.6	16.0	10.6	13.6

## NORTHERN ROCK GROUP INTERIM RESULTS

### Notes

1. Balance sheet growth in 2006 represents the growth in balance sheet assets between 31 December 2005 and 30 June 2006.
2. Post tax returns are calculated by reference to profit attributable to equity shareholders.
3. Underlying performance excludes the effects of fair value volatility and hedge ineffectiveness to present a more appropriate view of the ongoing underlying performance of the Group.

# NORTHERN ROCK GROUP INTERIM RESULTS

## FINANCIAL INFORMATION

### STATUTORY CONSOLIDATED INCOME STATEMENT

	<u>Note</u>	<u>Six months to 30 June</u>		<u>Full year</u>
		<u>2006</u> <u>(Unaudited)</u> <u>£m</u>	<u>2005</u> <u>(Unaudited)</u> <u>(Restated)</u> <u>£m</u>	<u>2005</u> <u>(Audited)</u> <u>£m</u>
<b>Interest and similar income</b>		2,280.4	1,939.2	4,056.7
<b>Interest expense and similar charges</b>		(1,878.5)	(1,569.9)	(3,304.4)
<b>Net interest income</b>	6	<u>401.9</u>	<u>369.3</u>	<u>752.3</u>
Fee and commission income		98.2	63.4	157.0
Fee and commission expense		(21.1)	(13.5)	(28.9)
Other operating income		<u>0.6</u>	<u>0.6</u>	<u>0.9</u>
Net hedge ineffectiveness and other unrealised fair value gains and losses	4	77.7 8.5	50.5 (1.3)	129.0 (56.4)
<b>Total income</b>	5	<u>488.1</u>	<u>418.5</u>	<u>824.9</u>
Administrative expenses		(120.5)	(104.6)	(226.1)
Depreciation and amortisation		(14.5)	(14.3)	(23.3)
Covenant to The Northern Rock Foundation		(14.7)	(14.7)	(24.7)
Operating expenses	7	<u>(149.7)</u>	<u>(133.6)</u>	<u>(274.1)</u>
Impairment losses on loans and advances	9	(44.5)	(25.5)	(56.6)
<b>Profit before taxation</b>		<u>293.9</u>	<u>259.4</u>	<u>494.2</u>
Income tax expense		(85.8)	(76.0)	(144.9)
<b>Profit for the period</b>		<u>208.1</u>	<u>183.4</u>	<u>349.3</u>
Attributable to:				
Appropriations		20.3	19.7	48.6
Profit attributable to equity shareholders		187.8	163.7	300.7
<b>Total</b>		<u>208.1</u>	<u>183.4</u>	<u>349.3</u>
Earnings per share	12			
Basic earnings per share		45.1p	39.6p	72.5p
Diluted earnings per share		44.7p	39.3p	72.0p

Details of dividends are set out in note 11.

# NORTHERN ROCK GROUP INTERIM RESULTS

## STATUTORY CONSOLIDATED BALANCE SHEET

	<u>Note</u>	<u>30 June</u> <u>2006</u> <u>(Unaudited)</u>  <u>£m</u>	<u>30 June</u> <u>2005</u> <u>(Unaudited)</u> <u>(Restated)</u>  <u>£m</u>	<u>31 December</u> <u>2005</u> <u>(Audited)</u>  <u>£m</u>
<b>Assets</b>				
Cash and balances with central banks		244.4	70.7	69.2
Derivative financial instruments		954.0	911.5	1,449.8
Loans and advances to banks		4,403.9	3,716.6	5,073.8
Loans and advances to customers	14	77,339.3	61,370.3	70,076.1
Fair value adjustments of portfolio hedging		(159.8)	255.5	163.8
Available for sale securities		5,510.4	5,623.0	5,377.1
Intangible assets		85.2	76.4	78.2
Property, plant and equipment		187.2	174.9	180.6
Deferred income tax asset		106.8	84.6	57.5
Other assets		29.0	50.6	52.9
Prepayments and accrued income		120.3	101.0	129.5
<b>Total assets</b>		<b>88,820.7</b>	<b>72,435.1</b>	<b>82,708.5</b>
<b>Liabilities</b>				
Deposits by banks		2,756.6	1,471.3	1,536.8
Customer accounts	16	25,351.0	21,497.8	23,672.6
Derivative financial instruments		1,215.3	1,390.2	846.1
Debt securities in issue				
Securitised notes		36,334.4	27,705.5	31,156.4
Covered bonds	15	4,964.6	2,430.2	3,830.4
Other		13,235.6	13,558.5	17,147.8
Other liabilities		110.2	113.7	93.8
Current taxation liabilities		109.3	83.4	43.3
Accruals and deferred income		660.1	592.6	706.3
Provisions for liabilities and charges		27.7	54.1	54.4
Subordinated liabilities		768.3	790.2	785.3
Tier one notes		207.8	219.8	223.9
		<b>85,740.9</b>	<b>69,907.3</b>	<b>80,097.1</b>
<b>Equity</b>				
<b>Shareholders' funds</b>				
Called up share capital				
Ordinary		123.9	123.9	123.9
Preference	18	396.5	-	-
Share premium account		6.8	6.8	6.8
Capital redemption reserve		7.3	7.3	7.3
Other reserves		(32.5)	35.7	11.1
Retained earnings		1,542.0	1,318.3	1,426.5
<b>Total equity attributable to equity shareholders</b>		<b>2,044.0</b>	<b>1,492.0</b>	<b>1,575.6</b>
<b>Non shareholders' funds</b>				
Reserve capital instruments		299.3	299.3	299.3
Subordinated notes		736.5	736.5	736.5
<b>Total non shareholders' funds</b>		<b>1,035.8</b>	<b>1,035.8</b>	<b>1,035.8</b>
<b>Total equity</b>		<b>3,079.8</b>	<b>2,527.8</b>	<b>2,611.4</b>
<b>Total equity and liabilities</b>		<b>88,820.7</b>	<b>72,435.1</b>	<b>82,708.5</b>

# NORTHERN ROCK GROUP INTERIM RESULTS

## STATUTORY CONSOLIDATED CASHFLOW STATEMENT

	Six months to 30 June		Full year
	<u>2006</u> <u>(Unaudited)</u>	<u>2005</u> <u>(Unaudited)</u> <u>(Restated)</u>	<u>2005</u> <u>(Audited)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Net cash inflow from operating activities</b>			
Profit before taxation	293.9	259.4	494.2
<b>Adjusted for:</b>			
Depreciation and amortisation	14.5	14.3	23.3
Impairment losses on loans and advances to customers	44.5	25.5	56.6
Other non cash movements	11.2	494.3	(303.9)
	<u>364.1</u>	<u>793.5</u>	<u>270.2</u>
<b>Changes in operating assets</b>			
Deposits held for regulatory or monetary control purposes	(178.9)	(9.5)	(2.0)
Loans and advances	(7,404.7)	(6,613.6)	(14,540.4)
Derivative financial instruments	865.0	478.7	(603.7)
Changes in other assets	(16.2)	614.7	571.3
	<u>(6,734.8)</u>	<u>(5,529.7)</u>	<u>(14,574.8)</u>
<b>Changes in operating liabilities</b>			
Net increase in debt securities in issue	2,706.4	3,911.4	13,270.4
Deposits from other banks	1,219.8	268.2	335.2
Due to customers	1,676.2	1,104.1	3,286.7
Other liabilities	46.0	121.6	(36.0)
Accruals and deferred income	(46.2)	(86.9)	49.7
Income taxes paid	(40.7)	(63.5)	(109.8)
	<u>5,561.5</u>	<u>5,254.9</u>	<u>16,796.2</u>
<b>Cashflows from investing activities</b>			
Net investment in intangible assets and property plant and equipment	(28.1)	(20.0)	(38.5)
Purchase of securities	(1,971.0)	(4,166.5)	(6,465.0)
Proceeds from sale and redemption of securities	1,533.7	3,578.0	6,108.4
	<u>(465.4)</u>	<u>(608.5)</u>	<u>(395.1)</u>
<b>Cashflows from financing activities</b>			
Issue of preference shares	396.5	-	-
Equity dividends paid	(86.6)	(74.7)	(113.8)
Appropriations (including tax of £8.7 million, 30 June 2005 - £8.5 million, 31 December 2005 - £20.8 million)	(29.0)	(28.2)	(69.4)
	<u>280.9</u>	<u>(102.9)</u>	<u>(183.2)</u>
Net (decrease) / increase in cash and cash equivalents	<u>(993.7)</u>	<u>(192.7)</u>	<u>1,913.3</u>
Opening cash and cash equivalents	5,271.1	3,357.8	3,357.8
Closing cash and cash equivalents	<u>4,277.4</u>	<u>3,165.1</u>	<u>5,271.1</u>

## **NORTHERN ROCK GROUP INTERIM RESULTS**

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## NORTHERN ROCK GROUP INTERIM RESULTS

### STATUTORY CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
<b>Six months ended 30 June 2006</b>									
Profit for the period		-	-	-	-	187.8	187.8	20.3	208.1
Net movement in available for sale reserve		-	-	-	(31.0)	-	(31.0)	-	(31.0)
Actuarial gains and losses		-	-	-	(12.6)	-	(12.6)	-	(12.6)
<b>Total recognised income and expense for the period</b>		-	-	-	<b>(43.6)</b>	<b>187.8</b>	<b>144.2</b>	<b>20.3</b>	<b>164.5</b>
<b>Note – reconciliation of movements in equity</b>									
<b>Total recognised income and expense for the period</b>		-	-	-	<b>(43.6)</b>	<b>187.8</b>	<b>144.2</b>	<b>20.3</b>	<b>164.5</b>
Issue of preference shares		396.5	-	-	-	-	396.5	-	396.5
Dividends	11	-	-	-	-	(86.6)	(86.6)	-	(86.6)
Appropriations		-	-	-	-	-	-	(20.3)	(20.3)
Movement in own shares	17	-	-	-	-	14.3	14.3	-	14.3
Balance at 31 December 2005		123.9	6.8	7.3	11.1	1,426.5	1,575.6	1,035.8	2,611.4
<b>Balance at 30 June 2006</b>		<b>520.4</b>	<b>6.8</b>	<b>7.3</b>	<b>(32.5)</b>	<b>1,542.0</b>	<b>2,044.0</b>	<b>1,035.8</b>	<b>3,079.8</b>

## NORTHERN ROCK GROUP INTERIM RESULTS

### STATUTORY CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	Called up share capital	Share premium account	Capital redemption reserve	Other reserves	Retained earnings  (Restated)	Total shareholders' funds  (Restated)	Non shareholders' funds	Total equity  (Restated)
		£m	£m	£m	£m	£m	£m	£m	£m
<b>Six months ended 30 June 2005</b>									
Profit for the period		-	-	-	-	163.7	163.7	19.7	183.4
Net movement in available for sale reserve		-	-	-	10.6	-	10.6	-	10.6
Net change in cash flow hedges		-	-	-	(8.7)	-	(8.7)	-	(8.7)
<b>Total recognised income and expense for the period</b>		-	-	-	<b>1.9</b>	<b>163.7</b>	<b>165.6</b>	<b>19.7</b>	<b>185.3</b>
Adoption of IAS 32 and IAS 39 – fair value adjustments		-	-	-	35.8	(179.7)	(143.9)	-	(143.9)
<b>Total</b>		-	-	-	<b>37.7</b>	<b>(16.0)</b>	<b>21.7</b>	<b>19.7</b>	<b>41.4</b>
<b>Note – reconciliation of movements in equity</b>									
<b>Total – as above</b>		-	-	-	<b>37.7</b>	<b>(16.0)</b>	<b>21.7</b>	<b>19.7</b>	<b>41.4</b>
Adoption of IAS 32 and IAS 39 – debt / equity reclassifications		-	-	-	-	-	-	1,035.8	1,035.8
Dividends	11	-	-	-	-	(74.7)	(74.7)	-	(74.7)
Appropriations		-	-	-	-	-	-	(19.7)	(19.7)
Movement in own shares	17	-	-	-	-	7.4	7.4	-	7.4
Balance at 31 December 2004		123.9	6.8	7.3	(2.0)	1,401.6	1,537.6	-	1,537.6
<b>Balance at 30 June 2005</b>		<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>35.7</b>	<b>1,318.3</b>	<b>1,492.0</b>	<b>1,035.8</b>	<b>2,527.8</b>

## NORTHERN ROCK GROUP INTERIM RESULTS

### STATUTORY CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
<b>Year ended 31 December 2005</b>									
Profit for the year		-	-	-	-	300.7	300.7	48.6	349.3
Net movement in available for sale reserve		-	-	-	(1.0)	-	(1.0)	-	(1.0)
Net change in cash flow hedges		-	-	-	(8.8)	-	(8.8)	-	(8.8)
Actuarial gains and losses		-	-	-	(12.9)	-	(12.9)	-	(12.9)
<b>Total recognised income and expense for the year</b>		-	-	-	<b>(22.7)</b>	<b>300.7</b>	<b>278.0</b>	<b>48.6</b>	<b>326.6</b>
Adoption of IAS 32 and IAS 39 – fair value adjustments		-	-	-	35.8	(179.7)	(143.9)	-	(143.9)
<b>Total</b>		-	-	-	<b>13.1</b>	<b>121.0</b>	<b>134.1</b>	<b>48.6</b>	<b>182.7</b>
<b>Note – reconciliation of movements in equity</b>									
<b>Total – as above</b>		-	-	-	<b>13.1</b>	<b>121.0</b>	<b>134.1</b>	<b>48.6</b>	<b>182.7</b>
Adoption of IAS 32 and IAS 39 – debt / equity reclassifications		-	-	-	-	-	-	1,035.8	1,035.8
Dividends	11	-	-	-	-	(113.8)	(113.8)	-	(113.8)
Appropriations		-	-	-	-	-	-	(48.6)	(48.6)
Movement in own shares	17	-	-	-	-	17.7	17.7	-	17.7
Balance at 31 December 2004		123.9	6.8	7.3	(2.0)	1,401.6	1,537.6	-	1,537.6
<b>Balance at 31 December 2005</b>		<b>123.9</b>	<b>6.8</b>	<b>7.3</b>	<b>11.1</b>	<b>1,426.5</b>	<b>1,575.6</b>	<b>1,035.8</b>	<b>2,611.4</b>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS

### 1. Basis of Preparation

The financial information contained in this Interim Report has been prepared in accordance with the Listing Rules of the Financial Services Authority. The accounting policies and method used to prepare the 2006 Interim Results remain unchanged from those used in the preparation of the 2005 full year statutory accounts. These Interim Results do not contain all the disclosures in IAS34, "Interim Financial Reporting", that does not become mandatory until 2007.

### 2. Prior Year Adjustment

As a result of emerging best practice, the treatment of the following hedge accounting transactions was altered in the second half of 2005 and included in the full year results.

In the results for the six months ended 30 June 2005, where mortgages were added to or removed from the mortgage fair value macro hedge at a fair value other than par, the difference between the fair value and the par value was recorded immediately in the income statement. This treatment was amended in the second half of 2005, such that for mortgages added to or removed from the fair value macro hedge for reasons other than derecognition of the loan, the difference between the fair value and par value was amortised on a straight line basis over the remaining period over which the mortgage is or was being hedged. In addition, the period of amortisation of a transition adjustment through the income statement, relating to the macro fair value hedge was also amended in the second half of 2005.

These changes mean it is necessary to amend the 2005 first half previously published figures. In accordance with accounting practice and in the interests of comparability, the Interim Results for the six months ended 30 June 2005 have therefore been restated.

This restatement results in a decrease in 'net hedge ineffectiveness and other unrealised fair value gains and losses' of £34.6 million for the first half of 2005 but it has no effect for the 2005 full year or for the underlying results for the first half of 2005.

The impact on the previously published figures is as follows:

	<u>As reported</u> <u>£m</u>	<u>Adjustment</u> <u>£m</u>	<u>Restated</u> <u>£m</u>
Net interest income	369.3		369.3
Other income	50.5		50.5
Net hedge ineffectiveness	33.3	(34.6)	(1.3)
Total income	453.1	(34.6)	418.5
Profit before tax	294.0	(34.6)	259.4
Taxation	(86.1)	10.1	(76.0)
Profit for the period	207.9	(24.5)	183.4
Profit attributable to equity shareholders	188.2	(24.5)	163.7

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 3. Underlying Results

Underlying results are reconciled to the statutory results in the following tables.

	<b>Six months to 30 June 2006</b>		
	<b><u>Profit</u></b> <b><u>before</u></b> <b><u>taxation</u></b>	<b><u>Profit for</u></b> <b><u>the period</u></b>	<b><u>Profit</u></b> <b><u>attributable to</u></b> <b><u>equity</u></b> <b><u>shareholders</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
Reported statutory results	293.9	208.1	187.8
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses (note 4)	(21.2)	(21.2)	(21.2)
Impact of covenant to The Northern Rock Foundation	1.0	1.0	1.0
Associated taxation	-	5.9	5.9
Underlying results	<u>273.7</u>	<u>193.8</u>	<u>173.5</u>

	<b>Six months to 30 June 2005</b>		
	<b><u>Profit</u></b> <b><u>before</u></b> <b><u>taxation</u></b>	<b><u>Profit for</u></b> <b><u>the period</u></b>	<b><u>Profit</u></b> <b><u>attributable to</u></b> <b><u>equity</u></b> <b><u>shareholders</u></b>
	<b><u>(Restated)</u></b> <b><u>£m</u></b>	<b><u>(Restated)</u></b> <b><u>£m</u></b>	<b><u>(Restated)</u></b> <b><u>£m</u></b>
Reported statutory results (as previously reported)	294.0	207.9	188.2
Prior year adjustment (note 2)	(34.6)	(24.5)	(24.5)
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses (note 4)	(23.0)	(23.0)	(23.0)
Impact of covenant to The Northern Rock Foundation	2.8	2.8	2.8
Associated taxation	-	5.9	5.9
Underlying results	<u>239.2</u>	<u>169.1</u>	<u>149.4</u>

	<b>Year ended 31 December 2005</b>		
	<b><u>Profit</u></b> <b><u>before</u></b> <b><u>taxation</u></b>	<b><u>Profit for</u></b> <b><u>the year</u></b>	<b><u>Profit</u></b> <b><u>attributable to</u></b> <b><u>equity</u></b> <b><u>shareholders</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
Reported statutory results	494.2	349.3	300.7
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses (note 4)	10.9	10.9	10.9
Impact of covenant to The Northern Rock Foundation	(0.5)	(0.5)	(0.5)
Associated taxation	-	(3.0)	(3.0)
Underlying results	<u>504.6</u>	<u>356.7</u>	<u>308.1</u>

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

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

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

	Six months to 30 June		Full year
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>£m</u>	<u>(Restated)</u> <u>£m</u>	<u>£m</u>
Fair value movements of future cashflows excluding interest flows on non-hedging derivatives	(1,195.3)	734.1	1,675.6
Translation gains and losses on underlying instruments	1,184.0	(732.3)	(1,693.7)
	(11.3)	1.8	(18.1)
Net hedge ineffectiveness excluding interest flows on fair value hedges	19.8	(3.1)	(38.3)
Net hedge ineffectiveness and other unrealised fair value gains and losses	8.5	(1.3)	(56.4)
Interest implicit in forward exchange contracts (note 6)	12.7	24.3	45.5
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses	21.2	23.0	(10.9)

The Group enters into certain derivative financial instruments which although highly effective as economic hedges are not included in hedge accounting relationships. These derivatives include hedges on certain foreign currency assets and wholesale funding recorded at amortised cost and instruments included within non shareholders' funds, forward currency contracts and previously effective hedges which no longer meet the hedge accounting criteria and consequently have been de-designated.

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

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

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 5. Total Income

	Six months to 30 June		Full year
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>£m</u>	<u>(Restated)</u> <u>£m</u>	<u>£m</u>
<b>Reported total income</b>	488.1	418.5	824.9
Adjustment:			
Underlying net hedge ineffectiveness and other unrealised fair value gains and losses (note 4)	(21.2)	(23.0)	10.9
<b>Underlying total income</b>	<u>466.9</u>	<u>395.5</u>	<u>835.8</u>
Mean total assets	85,764.6	68,658.0	73,794.7
Mean total assets (underlying)	84,545.6	67,960.7	72,883.6
Mean risk weighted assets	26,756.1	23,351.9	24,663.4
Mean risk weighted assets (underlying)	26,756.1	23,218.8	24,530.3
Underlying total income : mean total assets (underlying)	1.10%	1.16%	1.15%
Underlying total income : mean risk weighted assets (underlying)	3.49%	3.41%	3.41%
Total income : mean total assets	1.14%	1.22%	1.12%
Total income : mean risk weighted assets	3.65%	3.58%	3.34%

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

Underlying total assets exclude the effect of fair value adjustments. Underlying mean total assets and underlying mean risk weighted assets in 2005 are calculated by reference to proforma 31 December 2004 assets which take into account the impact of IFRS introduced with effect from 1 January 2005.

### 6. Net Interest Income

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

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

Annualised interest used in the calculation of interest margin and spread is determined on a monthly basis for secured advances and other lending and on a daily basis for other assets and liabilities. The calculations for the six months to 30 June 2005 have been restated on this basis.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 6. Net Interest Income (continued)

	Six months to 30 June		Full year
	<u>2006</u>	<u>2005</u> <u>(Restated)</u>	<u>2005</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Interest income</b>			
Secured advances	1,852.8	1,524.4	3,220.2
Other lending	194.8	160.0	337.0
Investment securities and deposits	232.8	254.8	499.5
	<u>2,280.4</u>	<u>1,939.2</u>	<u>4,056.7</u>
<b>Interest expense</b>			
Retail customer accounts	454.5	409.5	841.7
Other deposits and loans	1,394.5	1,126.1	2,398.7
Subordinated liabilities	26.2	27.1	53.7
Reserve capital instruments	(3.2)	-	(3.7)
Tier one notes	6.5	7.2	14.0
Interest expense as reported	<u>1,878.5</u>	<u>1,569.9</u>	<u>3,304.4</u>
Interest implicit in forward foreign exchange contracts	12.7	24.3	45.5
Underlying interest expense	<u>1,891.2</u>	<u>1,594.2</u>	<u>3,349.9</u>
<b>Net interest income as reported</b>	<u>401.9</u>	<u>369.3</u>	<u>752.3</u>
<b>Underlying net interest income</b>	<u>389.2</u>	<u>345.0</u>	<u>706.8</u>
Average interest earning assets excluding fair value adjustments	84,224.3	68,723.6	72,730.0
Average interest bearing liabilities excluding fair value adjustments	81,627.8	66,235.6	70,250.7
Underlying interest margin	0.89%	0.97%	0.97%
Underlying interest spread	0.75%	0.80%	0.81%
Interest margin as reported	0.92%	1.04%	1.03%
Interest spread as reported	0.78%	0.87%	0.87%

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

The full fair value of foreign exchange contracts, including both the interest and currency elements, is included in "Net hedge ineffectiveness and other unrealised fair value gains and losses" in the reported statutory results (note 4).

Included within interest income is an adjustment of £1.6 million (30 June 2005: £1.7 million, 31 December 2005: £3.3 million) with respect to the unwind of the discount included in the impairment allowance.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 7. Operating Expenses

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

	Six months to 30 June		Full year
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Staff costs	77.8	66.9	144.5
Other expenses	42.7	37.7	81.6
Depreciation and amortisation	14.5	14.3	23.3
Total operating expenses	<u>135.0</u>	<u>118.9</u>	<u>249.4</u>

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

	Six months to 30 June		Full year
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Full time	4,760	4,429	4,569
Part time	1,119	1,272	1,210

### 8. Interest Incentives and Fees

Included within the consolidated balance sheet are the following:

	Mortgage incentives <u>£m</u>	Fees receivable <u>£m</u>	Fees payable <u>£m</u>
<b>Balance at 1 January 2006</b>	418.4	(292.0)	191.4
Amounts charged / paid	359.7	(111.9)	73.8
Released in the period	(337.5)	79.7	(54.7)
<b>Balance at 30 June 2006</b>	<u>440.6</u>	<u>(324.2)</u>	<u>210.5</u>

	Mortgage incentives <u>£m</u>	Fees receivable <u>£m</u>	Fees payable <u>£m</u>
<b>Balance at 1 January 2005</b>	312.8	(238.2)	154.3
Amounts charged / paid	268.3	(107.3)	55.4
Released in the period	(225.5)	76.8	(44.9)
<b>Balance at 30 June 2005</b>	<u>355.6</u>	<u>(268.7)</u>	<u>164.8</u>

	Mortgage incentives <u>£m</u>	Fees receivable <u>£m</u>	Fees payable <u>£m</u>
<b>Balance at 1 January 2005</b>	312.8	(238.2)	154.3
Amounts charged / paid	637.2	(212.3)	132.4
Released in the year	(531.6)	158.5	(95.3)
<b>Balance at 31 December 2005</b>	<u>418.4</u>	<u>(292.0)</u>	<u>191.4</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 9. Impairment Losses on Loans and Advances

	Six months to 30 June		Full year
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Impairment charge</b>			
Secured on residential property	9.2	(5.2)	7.0
Secured commercial	1.8	(6.2)	(7.1)
Unsecured	33.5	36.9	56.7
<b>Total impairment charge</b>	<u>44.5</u>	<u>25.5</u>	<u>56.6</u>
% of mean advances to customers	0.12%	0.09%	0.09%
	30 June		31 December
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b>Impairment allowance</b>			
Secured on residential property	32.6	26.5	32.5
Secured commercial	6.7	5.8	4.7
Unsecured	92.6	92.7	87.1
<b>Total impairment allowance</b>	<u>131.9</u>	<u>125.0</u>	<u>124.3</u>
% of period end advances to customers	0.17%	0.20%	0.18%

### 10. Residential Mortgage Arrears

	30 June		30 June		31 December	
	<u>2006</u>		<u>2005</u>		<u>2005</u>	
	Cases	%	Cases	%	Cases	%
3 – 6 months	2,356	0.34	1,685	0.27	2,035	0.31
Over 6 – 12 months	765	0.11	460	0.08	540	0.08
Over 12 months	20	-	10	-	16	-
<b>Total</b>	<u>3,141</u>	<u>0.45</u>	<u>2,155</u>	<u>0.35</u>	<u>2,591</u>	<u>0.39</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 11. Dividends

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

	<b>Six months to 30 June</b>		<b>Full Year</b>
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2005</u></b>
	<b><u>pence per share</u></b>	<b><u>pence per share</u></b>	<b><u>pence per share</u></b>
2004 final dividend	-	18.0	18.0
2005 interim dividend	-	-	9.4
2005 final dividend	20.7	-	-
	<u>20.7</u>	<u>18.0</u>	<u>27.4</u>

The proposed interim dividend in respect of 2006 amounts to 10.9 pence per share (£45.7 million). These Interim Results do not reflect this dividend payable.

	<b>Six months to 30 June</b>		<b>Full Year</b>
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2005</u></b>
	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
2004 final dividend	-	74.7	74.7
2005 interim dividend	-	-	39.2
2005 final dividend	86.6	-	-
Less paid to ESOP trusts	-	-	(0.1)
	<u>86.6</u>	<u>74.7</u>	<u>113.8</u>

### 12. Earnings per Share

Earnings per share figures based upon reported (basic) and underlying profit on ordinary activities attributable to equity shareholders (see note 3) are as follows:

	<b>Six months to 30 June</b>		<b>Full Year</b>
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2005</u></b>
Weighted average number of shares in issue	416.8m	413.8m	414.6m
Basic EPS	45.1p	39.6p	72.5p
Underlying EPS	41.6p	36.1p	74.3p

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	420.2m	416.9m	417.9m
Diluted EPS	44.7p	39.3p	72.0p
Underlying diluted EPS	41.3p	35.8p	73.7p

The fully diluted EPS figures are calculated using the weighted average number of Ordinary shares in issue together with 3.4 million (30 June 2005: 3.1 million, 31 December 2005: 3.3 million) potentially dilutive Ordinary shares resulting from options granted under employee share schemes.

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 12. Earnings per Share (continued)

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.

### 13. 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>2006</u>	<u>2005</u>	<u>2005</u>
	<u>%</u>	<u>%</u>	<u>%</u>
<b>Type of lending</b>			
Fixed rate (long term – over 2 years)	24	26	29
Fixed rate (short term – up to and including 2 years)	25	30	25
Discount	6	10	8
Cashback	-	1	1
Together	35	23	29
Lifetime	1	1	1
Buy to Let	9	9	7
<b>Type of customer</b>			
First time buyer	27	21	24
Next time buyer	41	40	39
Remortgage	32	39	37
<b>Geographic spread</b>			
North	16	15	15
Scotland	9	10	10
Midlands	26	25	25
South	49	50	50

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 14. Loans and Advances to Customers

	<b>30 June 2006</b>	<b>30 June 2005 (Restated)</b>	<b>31 December 2005</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Advances secured on residential property not subject to securitisation	32,744.2	25,498.7	23,900.7
Advances secured on residential property subject to securitisation	35,872.0	28,979.7	38,356.3
Advances secured on residential property	<u>68,616.2</u>	<u>54,478.4</u>	<u>62,257.0</u>
Commercial secured advances not subject to securitisation	880.6	1,347.5	743.5
Commercial secured advances subject to securitisation	713.5	200.0	779.8
Total other secured advances	<u>1,594.1</u>	<u>1,547.5</u>	<u>1,523.3</u>
Unsecured loans not subject to securitisation	6,637.6	4,904.1	5,788.6
Unsecured investment loans	491.4	440.3	507.2
	<u>77,339.3</u>	<u>61,370.3</u>	<u>70,076.1</u>

### 15. Covered Bonds

Included within loans and advances to customers not subject to securitisation are £5,937.6 million (30 June 2005: £3,344.3 million, 31 December 2005: £4,686.1 million) of mortgage advances assigned to a bankruptcy remote special purpose vehicle. These loans provide security to issues of covered bonds made by Northern Rock, which are included within debt securities in issue amounting to £4,964.6 million (30 June 2005: £2,430.2 million, 31 December 2005: £3,830.4 million). Northern Rock retains substantially all the risks and rewards associated with these loans and therefore these transactions do not qualify for derecognition under IAS 39.

### 16. Analysis of Customer Accounts

	<b>30 June 2006</b>	<b>30 June 2005</b>	<b>31 December 2005</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Branch accounts	5,562.5	4,303.8	5,114.7
Postal accounts	9,652.4	8,546.1	8,714.3
Internet accounts	1,856.9	2,182.7	2,047.9
Offshore accounts	3,559.1	2,611.8	2,965.4
Telephone accounts	616.7	747.4	698.6
Legal & General branded accounts	525.7	616.3	563.5
Total retail balances	<u>21,773.3</u>	<u>19,008.1</u>	<u>20,104.4</u>
Other customer accounts	<u>3,577.7</u>	<u>2,489.7</u>	<u>3,568.2</u>
	<u>25,351.0</u>	<u>21,497.8</u>	<u>23,672.6</u>

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### 17. Own Shares

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

	<b>30 June <u>2006</u> <u>£m</u></b>	<b>30 June <u>2005</u> <u>£m</u></b>	<b>31 December <u>2005</u> <u>£m</u></b>
Employee share schemes - value of employee services	7.9	5.9	10.8
Cash received on exercise of employee options and for other employee share plans	5.1	2.7	16.3
Tax impact of share based payments	1.3	-	0.8
Purchase of shares	-	(1.2)	(10.2)
	<u>14.3</u>	<u>7.4</u>	<u>17.7</u>

### 18. Capital Structure

	<b>30 June <u>2006</u> <u>£m</u></b>	<b>30 June <u>2005</u> <u>(Restated)</u> <u>£m</u></b>	<b>31 December <u>2005</u> <u>£m</u></b>
<b>Tier 1</b>			
Ordinary share capital	123.9	123.9	123.9
Preference share capital	396.5	-	-
Share premium account	6.8	6.8	6.8
Capital redemption reserve	7.3	7.3	7.3
Retained earnings	1,542.0	1,318.3	1,426.5
Pension scheme	(8.1)	36.0	23.1
Reserve capital instruments	299.3	288.7	299.3
Tier one notes	207.8	219.8	223.9
Goodwill and intangible assets	(85.2)	(76.4)	(78.2)
Total Tier 1 capital	<u>2,490.3</u>	<u>1,924.4</u>	<u>2,032.6</u>
<b>Upper Tier 2</b>			
Perpetual subordinated debt	736.5	736.5	736.5
Reserve capital instruments	-	10.6	-
Collectively assessed impairment allowances	125.1	73.2	119.0
Total Upper Tier 2 capital	<u>861.6</u>	<u>820.3</u>	<u>855.5</u>
<b>Lower Tier 2</b>			
Term subordinated debt	768.3	790.2	785.3
Total Tier 2 capital	<u>1,629.9</u>	<u>1,610.5</u>	<u>1,640.8</u>
Deductions	<u>(464.6)</u>	<u>(526.8)</u>	<u>(449.8)</u>
Total capital	<u>3,655.6</u>	<u>3,008.1</u>	<u>3,223.6</u>
Risk weighted assets	<u>27,216.2</u>	<u>23,672.9</u>	<u>26,295.9</u>
Tier 1 ratio	9.2%	8.1%	7.7%
Total capital	13.4%	12.7%	12.3%

# NORTHERN ROCK GROUP INTERIM RESULTS

## NOTES TO THE RESULTS (CONTINUED)

### **18. Capital Structure (continued)**

On 29 June 2006, Northern Rock plc issued 400,000 perpetual non-cumulative callable preference shares of £1,000 each. Proceeds of £400 million were received less £3.5 million relating to issue costs. Dividends on these shares are discretionary and subject to Board approval, will first be paid on 4 July 2007 and annually thereafter at a rate of 6.8509%.

Northern Rock has a call option after ten years, and annually thereafter, which it can only exercise with the consent of the Financial Services Authority.

### **19. Interim Dividend**

The relevant dates for the 2006 interim dividend are as follows:

Ex dividend date	27 September 2006
Record date	29 September 2006
Payment date	27 October 2006

### **20. Other Information**

The information in this announcement is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory accounts of Northern Rock plc for the year ended 31 December 2005 have been filed with the Registrar of Companies in England and Wales. The auditors' report on these accounts was unqualified and did not include a statement under section 237(2) or (3) of the Act.

A summary of this report will appear as an advertisement in the Financial Times, The Times, The Daily Telegraph, The Scotsman and The Newcastle Journal on 27 July 2006. The report will also be available on the Northern Rock website [www.northernrock.co.uk](http://www.northernrock.co.uk) from 8.30am on 26 July 2006.

A presentation of the results will be given by Directors on the morning of the results announcement. A live web cast of the presentation will be available on the Northern Rock website on 26 July 2006 from 9.30am. A recording of this web cast will subsequently be available on the Northern Rock website from 3.00pm on 26 July 2006.

# NORTHERN ROCK GROUP INTERIM RESULTS

## Independent Review Report to Northern Rock plc

### **Introduction**

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the consolidated interim balance sheet as at 30 June 2006 and the related consolidated interim statements of income, cash flows and statements of recognised income and expense for the six months then ended and related notes. We have read the other information contained in 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 Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in note 1 "Basis of Preparation" in the notes to the interim report.

### **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 group 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 2006.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Newcastle upon Tyne  
26 July 2006

Notes: (a) The maintenance and integrity of the Northern Rock web site 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 web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

# NORTHERN ROCK GROUP INTERIM RESULTS

## Contacts

### City Contacts

Bob Bennett  
Group Finance Director  
0191 279 4366

Dave Jones  
Deputy Finance Director  
0191 279 4474

Richard Moorin  
Investor Relations  
0191 279 4093

Simon Hall  
Investor Relations  
0191 279 6090

### Press Contacts

Brian Giles  
Communications Director  
0191 279 4981

John Watson  
Operational Director  
0191 279 5295

Ron Stout  
Assistant Director - PR  
0191 279 4921

Don Hunter  
Finsbury Limited  
020 7251 3801

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