

**Registered Charity No. 1063906
Company No. 03416658**

**NORTHERN ROCK FOUNDATION
TRUSTEES' ANNUAL REPORT AND ACCOUNTS
For the year ended 31 December 2011**

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Trustees

Alastair Balls CB (Chair)
Sir David Chapman BT DL B Comm
David Faulkner OBE (re-joined – 31st August 2011)
Dame Jackie Fisher CBE
Dr Anthony Henfrey CFA
Frank Nicholson
Lorna Moran MBE
Christopher Jobe
Dr Barbara O’Toole
Julie Shipley

The Trustees have the powers and obligations of Directors as set out in the Companies Act 2006.

Foundation Directors

Chief Executive Penelope Wilkinson

Director of Finance and Resources Ian Rutter

Director of Strategic Operations Carol Candler

Secretary Ian Rutter

Registered Office and Correspondence address The Old Chapel, Woodbine Road, Gosforth, Newcastle upon Tyne NE3 1DD

Registered Charity Charity Commissioners’ Reference Number 1063906

Company Limited By Guarantee Registered Number 03416658

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Web site www.nr-foundation.org.uk

Independent Auditors PKF (UK) LLP, Farringdon Place, 20 Farringdon Road, London EC1M 3AP

Bankers Lloyds Bank plc, Lloyds TSB, City Office, PO Box 72, Bailey Drive, Gillingham Business Park, Kent ME8 0LS
Northern Rock plc, Northern Rock House, Gosforth, Newcastle upon Tyne NE3 4PL

Solicitors Ward Hadaway Law Firm, Sandgate House, 102 Quayside, Newcastle upon Tyne NE1 3DX

Investment Managers Aberdeen Asset Managers Limited, Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD

Committee Members

Finance, Audit, Investment and Risk Committee

Dr Anthony Henfrey CFA (Chair)

Christopher Jobe

David Faulkner OBE (re-joined – 31st August 2011)

Frank Nicholson

Dr Barbara O'Toole

Ian Rutter (Secretary)

Staff Matters Committee

Lorna Moran MBE (Chair)

Dame Jackie Fisher CBE

Dr Barbara O'Toole

Northern Rock Foundation Trustees' report for the year ended 31 December 2011

The Trustees present their report and the audited accounts for the year ended 31 December 2011.

The Trustees have adopted the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in March 2005 in preparing the Annual Report and financial statements of the charity.

Governance and management

The Foundation is a charitable company limited by guarantee and was set up on 4 August 1997. It is governed by a memorandum and articles of association revised and adopted at the Foundation's AGM on 12 May 2008. The governance, terms of appointment and appointment to the Trustee Board of the Foundation are the responsibility of the Trustees. The Chairman has established an appraisal system for Trustees. As a consequence, the Trustees believe that they have available to them all the necessary skills to manage the Foundation's affairs.

The Trustees meet to discuss the Foundation's business and to make main grants (those over £20,000) five times each year. There are two committees dealing with finance, audit, investment and risk, and staff matters.

Responsibility for making grants up to and including £20,000 each is delegated to the Foundation's Chief Executive and any one Trustee. All such grant decisions are reported to the Board at the meeting following the decision. The Foundation's Chief Executive and/or Directors have delegated authority to reject ineligible applications subject to reporting all such decisions to the subsequent Board Meeting. Awards for under £2,500 are given at the discretion of the Programme Managers from a budget set by the Trustees for that purpose; they form part of the organisation's attempt to improve the knowledge and capacity of the sector. These decisions are ratified by the full Board at subsequent meetings. Day-to-day management of administration of grants and the processing and assessment of applications prior to Trustees' consideration is delegated to the Foundation's Chief Executive and staff team.

Induction of new Trustees takes the form of: 1, issue of an information pack; 2, a meeting with senior Foundation staff; and 3, an invitation to accompany members of the grants team on visits either before or after a grant has been made. The information pack contains recent Trustees' papers for Board meetings, risk register, annual reviews, accounts (the last two items for at least the previous year; others are available if desired) and current grant-making guidelines. Relevant policy papers or discussion papers relating to current or proposed grant-giving programmes are supplied as needed, as are relevant Charity Commission publications describing the duties and responsibilities of Trustees. Trustees are routinely asked if they have any training or information needs. The Trustees of the Foundation at 31 December 2011, all of whom have been Trustees for the whole of the year ended on that date unless otherwise stated, are listed on page 2 of this report.

Statement of Trustees' responsibilities

The Trustees are responsible for preparing the Trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Trustees to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the charity and of the incoming resources and

application of resources, including the net income or expenditure, of the charity for the year. In preparing those financial statements the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees are responsible for keeping accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees are responsible for the maintenance and integrity of the financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Objectives and activities

The Foundation's Objective, according to its governing document, is "to pay or apply the income or (if and when the Trustees, as hereinafter defined, shall see fit) the whole or any part of the capital of the Foundation to any charitable institutions, bodies or funds or for any charitable purposes (according to the laws of England and Wales from time to time) principally in, but not limited to, the United Kingdom."

Normally, and with only rare exceptions, the Foundation's Trustees have elected to confine their activities to the north of the UK and more specifically the North East of England and Cumbria. For operational purposes, the primary objective of the Northern Rock Foundation is to provide public benefit by tackling disadvantage and improving the quality of life in Cumbria, Northumberland, Tyne and Wear, County Durham and the Tees Valley.

The Foundation pursues this primary objective through investing in non-profit-distributing organisations. It also directly provides or commissions services, conducts research by commissioning others and provides loans on a variety of terms.

The Trustees confirm that they have complied with the duty in Section 4 of the Charities Act 2006 and have taken due regard of the Charity Commission's general guidance on public benefit.

Grant-making policy

As a large and engaged grant-maker with a wide range of interests, the Foundation has had numerous grant-making programmes and special initiatives, a set of policies for delivering them and detailed guidance for applicants. Currently the Foundation operates five main grants programmes: Managing Money, Having a Home, Enabling Independence and Choice, Safety and Justice for Victims of Abuse and Changing Lives. Funding for training and development as well as for research and commissions, also continued. During 2011 the Foundation also piloted a new grant programme, the Fresh Ideas Fund, to provide funding for early stage development of new business ideas to help charities to grow in size, increase their impact and improve their long term

sustainability. The programmes are described on the Foundation's website: www.nr-foundation.org.uk which was updated during 2011.

The Foundation works with grant-holders and other partners to help them to build their ability to be able to capture and demonstrate their value and impact, and to learn from the work they are doing to continually improve the projects they are delivering. We collect and use evaluation evidence on the achievements of the projects, supported by our grants and wider forms of assistance, to help inform our grant making and other support. This year we introduced more systematic assessment of our impact and effectiveness. In 2011, we used the findings of an independent survey - a 'Grantee Perception Study' (GPS) carried out by the Center for Effective Philanthropy - of all organisations that were receiving funding from us in 2009, to help find ways to improve our effectiveness and the support we provide to funded organisations. This included improved communications, changes to our capacity building work and training programme and support to link organisations with other funders.

In addition, we produced an impact framework against which we will be able to assess our impact on the organisations we support and consequently, on the individuals and communities our programmes are designed to help. We therefore continue to be confident that through our grant making and other support we have positively affected the lives of individuals and communities in our operating area.

Foundation staff monitor and work with grantees to support development and delivery. The GPS showed that organisations value the support they get from our programme staff if projects do not go as planned. However, if organisations are not succeeding in delivering against their grants, staff provide support and take sensible and proportionate action, including helping the grant holder to identify alternative approaches. Where a project has not delivered as anticipated, staff record and share information to help ensure we, and others, learn from the experience and that unsuccessful approaches are not repeated.

In 2011 the Foundation introduced a new information strategy to help improve how we share what we do and what we have learned from our work. As well as updating our website and introducing e-newsletters, we commissioned and published several pieces of research including a review of Dementia services in the North East, additional work on sexual exploitation, evidence about the availability of credit unions, as well as a second phase of the Third Sector Trends Study. We also published six additional reports from phase one of this study. In addition to publishing details of grants made in 2011 on our website, we now include examples of learning from 'star projects' to illustrate the impact projects are having on individuals and communities. We also published our annual review on-line as well as in hard copy and will do so again this year.

Achievements and performance

The Foundation's primary objective is very wide. The overarching goals are to address deeply entrenched social and economic problems that will not be 'solved' easily or quickly. The Foundation is also one amongst many other funders - public, private and voluntary sector - pursuing similar goals.

To help us to work more effectively towards addressing our overarching goals, we have produced a strategy for 2011 - 2015 and introduced new mechanisms for capturing and reporting our progress to Trustees. The strategy sets out clear goals for our programmes, linked to the published aims and criteria. The summary below highlights the outcomes of key

areas of support in 2011. The information is an extract from the detailed progress report presented to Trustees' meeting in December.

Programme/activity	Summary of progress/achievements in 2011
Changing Lives	<ul style="list-style-type: none"> • All priority groups within the programme received support; 38 projects were funded. • Partnership projects and networking between funded projects, such as refugee and asylum seeker groups, were supported. • Work to support young offenders was developed.
Enabling Independence and Choice	<ul style="list-style-type: none"> • All priority groups within the programme received support; 46 projects were funded. • A research report - <i>Dementia - A North East Perspective</i> was commissioned and published by the Foundation to address the gap in knowledge on this issue. • Networks for neighbourhood based older people's projects and mental health art studios to provide mutual and external support were established.
Safety and Justice for Victims of Abuse	<ul style="list-style-type: none"> • All priority groups within the programme received support; 29 projects were funded. • Funding was provided for high quality training for staff, and support for accreditation for services, to help voluntary organisations compete more effectively for domestic and sexual violence service contracts. • Work with national DV agency AVA and local statutory partnerships was funded to develop new ways to work with children affected by domestic violence. • Work with national Rape Crisis began to roll out a new, web-based data management programme, specifically designed for the sexual violence sector, which will enable local services to monitor and evaluate what they do effectively and inform policy makers. • Phase two of a study by the University of Bristol, looking at the rates and causes of attrition in cases of sexual violence across the three police forces in the North East, was commissioned.
Managing Money	<ul style="list-style-type: none"> • Seven projects were funded. • Work to support credit unions in Newcastle, South Tyneside, Sunderland and Carlisle was funded with the aim of encouraging the growth of sustainable business models. • Liverpool John Moores University was commissioned to explore the current position of credit unions across the North East and Cumbria. • Durham University was commissioned to evaluate financial inclusion approaches in Teesside. • Support for FINCAN, a network to tackle financial inclusion in the North East, was provided.
Having a Home	<ul style="list-style-type: none"> • Programme priorities covering prevention of homelessness, support for accommodation and training and employment projects were supported; 17 projects were funded. • Support to help homeless organisations become more

	<p>sustainable was funded.</p> <ul style="list-style-type: none"> • The Regional Youth Homelessness Network continued to be supported to develop a collective response to the growing problem of youth homelessness in the region.
Policy and Research	<ul style="list-style-type: none"> • Six reports from the first phase of the Third Sector Trends Study were published completing this phase of work. • The Foundation contributed to key national fora on social impact measurement and to publications on a more co-ordinated approach to 'funder plus' support .
Training and Development	<ul style="list-style-type: none"> • Nine projects and 22 learning and support grants were funded • Tailored on-line resources that will provide cost-effective and time-saving ways of helping organisations access management training were commissioned. • A programme of training and increased support for organisations to help them improve their ability to demonstrate their value and impact, including 'soft outcomes' training and support to choose the most appropriate tools, was delivered. • Training programmes and support networks for trustees and chief executives were established.

Plans for the future

The Foundation implemented the first year of a five year strategy in 2011. This was assessed at the end of 2011 and the programme for 2012 agreed as per the aims and objectives of the Strategy, with the addition of a new strand of work on social investment which was developed and piloted during 2011. The Trustees plan to make grants under five main programmes in 2012: Managing Money; Having a Home; Changing Lives; Safety and Justice for Victims of Abuse; Enabling Independence and Choice. These serve the needs of those people in the North East and Cumbria identified by the Foundation as the most vulnerable. The programmes are the result of research and consultation. In addition, the Trustees intend to continue offering training and development support with the aim of ensuring that grants are as effective as possible. Through research and policy development, the Foundation will also produce and publish learning drawn from commissioned work and its grant-making experience.

In November 2011 it was announced that Virgin Money would become the new owners of Northern Rock plc, and this acquisition took place on 1 January 2012. The funding agreement with Northern Rock plc to provide 1% of pre-tax profits to the Foundation has been renewed by Virgin Money until December 2013. A review of the Foundation's strategy will be carried out in 2012, in the light of on-going discussions with Virgin Money on future support and funding for the Foundation.

Grants approved during the year

The main grant programmes for 2011 were Managing Money; Having a Home; Changing Lives; Safety and Justice for Victims of Abuse; Enabling Independence and Choice. During 2011 the Foundation also piloted a new grant programme, the Fresh Ideas Fund. In addition, awards were made from the Training and Development budgets. A full listing of the 2011 approved grants can be found on the Foundation's website.

2011 Approved Grants:

Programme	Amount awarded £'000	% of amount awarded	% Success rate of eligible applications
Enabling Independence and Choice	2,208	30	57
Changing Lives	2,000	27	54
Safety and Justice for Victims of Abuse	995	13	90
Having a Home	1,292	17	68
Managing Money	454	6	38
Grants awarded under main programmes	6,949	93	61
Fresh Ideas	359	5	14
Training and Development grants	133	2	96
Policy grants	-	-	n/a
Total awarded by Trustees	7,441	100	53
Other awards	-	-	n/a
Grand Total	7,441	100	53

Eligibility

In 2011, the Foundation received 422 new requests for grants and there were 64 pending applications at the end of 2010. Of these 486 requests, 1 was converted into a loan and 114 were ineligible for funding or were withdrawn by applicants. Of the eligible requests, 166 were successful, 148 were rejected by Trustees and 57 were pending at the end of the year.

Geographical distribution

During 2011, £7.4 million was awarded under the Foundation's grant programmes. As the table below identifies, 27% of the amount awarded was to projects within Tyne and Wear and 3% to projects benefiting the whole of the North East and Cumbria.

Geographical distribution of grants awarded

Geographical area	Number of grants	% Success rate of eligible applications	Amount approved £'000	Amount approved %
Cumbria	28	65	1,308	18
Durham	16	50	690	9
North East	20	35	1,137	15
North East & Cumbria	4	100	229	3
Northumberland	18	55	774	10
Tees Valley	29	52	1,331	18
Tyne and Wear	51	57	1,972	27
Total	166	53	7,441	100

Range of grant awards

Of the 166 grants awarded in 2011, 71% were for amounts below £60,000 and 10% were for amounts of £100,000 or more.

Range of grant awards	Number of awards	Average grant £'000	Median grant £'000	Total grants £'000
£100,000 -	16	123	116	1,962
£60,000 - £99,999	32	74	71	2,367
£30,000 - £59,999	54	45	44	2,421
£10,000 - £29,999	31	19	19	575
£1 - £9,999	33	4	3	116
Total	166	45	40	7,441

Work commissioned by the Foundation

In 2011, the Foundation continued with its work to augment and enhance the effectiveness of its grant-making. Work was commissioned both to investigate and evaluate the effectiveness of the Foundation's grants and to identify future needs to inform grant programme priorities. The total value of work commissioned in 2011 is £290k, which represents 4% of the amount authorised by Trustees overall. Further details of the work commissioned in 2011 can be found on the Foundation's website and in the Annual Review for 2011.

The number and value of awards is presented in the table below.

Fund	Number of commissions	Total commissions £'000	% of amount awarded
Having a Home		-	-
Enabling Independence and Choice	1	9	3
Managing Money	1	8	3
Policy and Influence	6	106	36
Safety and Justice for Victims of Abuse	2	95	33
Training and Development Initiatives	7	72	25
Total	17	290	100

Social investment and loans to the voluntary sector

The Trustees have established a loan scheme that runs in tandem with their grant programmes. The intention is to achieve a combination of social objectives and financial returns to the Foundation as an investor. The majority of the capital is returnable and the investment is an important contributor to the regeneration of the area to which it relates. Interest-free or low-interest loans are a valuable way of helping enterprises which need time to settle and which can, ultimately, be expected largely to support themselves. The scheme was established to assist beneficiaries whose projects fell within the Foundation's overall operating objective, but where the discipline of having to create surplus for loan repayments could be seen as an achievable goal, which would ultimately lead the organisation towards greater self-sufficiency.

The loan scheme is administered jointly by the Foundation's staff and Charity Bank. Loans are made after careful assessment and with the help of Charity Bank which provides financial and business guidance. However, decisions are taken, on advice, by the Trustees. One new loan was made in 2011.

Risk statement

The Foundation's Trustees identify the greatest risk to the Foundation's activities as a reduction in the funding received from its corporate donor. Northern Rock plc made a commitment from January 2011 to provide 1% of pre-tax profits to the Foundation under a two year rolling agreement to be renewed annually. In 2011 Trustees maintained a level of reserves designed to smooth out any fluctuations in income received under this agreement. No income was received from Northern Rock plc in 2011 and, whilst the agreement to provide 1% of pre-tax profits to the Foundation has been renewed until December 2013 by Virgin Money, future levels of funding for the Foundation remain unclear. This risk to the Foundation therefore remains under active review.

The Trustees have considered and identified other risks to which the Foundation is subject and have set in place measures to mitigate them.

Internal controls have been established to ensure effective management and monitoring of the charity's operation. Trustees are informed about the risks inherent in their grant-making for the purposes of assessing and managing risk.

Trustees review the risk management strategy at least annually; during 2011, the Trustees monitored the strategy at regular intervals and updated it as necessary.

Investment policy and returns

The Foundation's Investment Committee (now Finance, Audit, Investment and Risk Committee) appointed Aberdeen Asset Management Limited to be their fund manager in 2007.

Aberdeen Asset Management Limited invests the Foundation's funds in Common Investment Funds with a mix of equity, fixed interest and cash investments in the portfolio to deliver a real rate of return of 3.5% per annum (measured against the Retail Prices Index) over a rolling five-year period.

Performance in 2011 has been monitored by the Finance, Audit, Investment and Risk Committee which considers it to have been satisfactory, under the prevailing circumstances.

Asset class	Benchmark %	Range %	Actual %
UK Equities	60	45-75	38
Global Equities (ex UK)	10	0-20	11
UK Fixed Interest and Index Linked	30	15-45	41
Cash	-	0-10	10
Total	100		100

Reserves policy

The level of reserves has always been set so as to absorb any shock to the financial strength of the Foundation and to ensure the continuity of its operations. This was to provide sufficient time for Trustees to take appropriate action to reflect any significant change in the level of funding. In 2011, in the light of the change to the Foundation's funding agreement and the anticipated reduction in income resulting from this, Trustees agreed to draw on reserves to fund the delivery of the Foundation's work.

Control systems exist to ensure the level of reserves is monitored at least monthly. The current intention is to manage funds so that the Trustees may, with confidence, continue grant-making for at least a further three to four years, taking into account only known income and reserves.

Closing reserves as at 31 December 2011 were £35,992,000 (2010: £43,455,000).

Liquidity policy

Liquidity management within the Foundation involves the day-to-day monitoring of current and future cash flows to ensure that all cash flow demands can be met.

Important factors in assuring liquidity are accurate record keeping and timing of liability demands, competitive market rates and highly marketable assets that can be liquidated quickly to gain access to the Foundation's funds if required. Control systems exist to ensure that a set level of liquidity is maintained and these are monitored at least monthly.

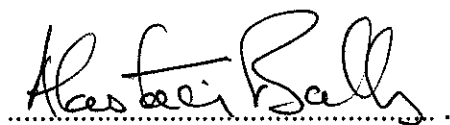
Financial report

Northern Rock plc made a commitment from January 2011 to provide 1% of pre-tax profits to the Foundation under a two year rolling agreement to be renewed annually. The Foundation received no income under this agreement from Northern Rock plc in 2011.

During the year, the Trustees allocated £7,441,000 to beneficiaries of their grant programmes for revenue grants which were for a term of between one and four years.

The Trustees incurred expenditure of £855,000, being £101,000 (2010: £103,000) in governance costs and £754,000 (2010: £857,000) in costs relating to grant awards and policy and development work.

On behalf of the board of Trustees



Alastair Balls CB
Chairman - Board of Trustees

Date: 15 MAY 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NORTHERN ROCK FOUNDATION

We have audited the financial statements of The Northern Rock Foundation for the year ended 31 December 2011 which comprise the statement of financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charity's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the statement of trustees' responsibilities, the trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. We have been appointed as auditor under the Companies Act 2006 and report in accordance with that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 December 2011 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the trustees' annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept in respect of the charity, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements do not accord with the accounting records and returns; or
- certain disclosures of trustee's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

PKF (UK) LLP

Karen Thompson (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor
London, UK

22 - 5 - 2012

Northern Rock Foundation
Statement of Financial Activities
(Incorporating an Income and Expenditure Account)
for the year ended 31 December 2011

	Note	Total funds 2011 £'000	Total funds 2010 £'000
Incoming Resources			
Covenant from Northern Rock	2	-	15,000
<i>Incoming resources from generated funds:</i>			
Investment Income	3	325	173
<i>Other incoming resources:</i>			
Voluntary Income		14	-
Total Incoming Resources		339	15,173
Resources Expended			
<i>Cost of generating funds:</i>			
Investment management costs	4	86	89
<i>Charitable activities</i>	5	8,190	13,251
<i>Governance costs</i>	6	101	103
Total Resources Expended		8,377	13,443
Net Income/(Expenditure)		(8,038)	1,730
Other Recognised Gains and Losses			
Net realised/unrealised gain on Investments	11	575	4,315
Net Movement in Funds		(7,463)	6,045
Balances brought forward 1 January		43,455	37,410
Balances carried forward 31 December		35,992	43,455

All of the above results are derived from continuing activities.

There were no gains or losses recognised in the current year that were not reflected in the increase in fund balances carried forward, therefore no separate statement of total recognised gains and losses has been prepared.

The deficit for the year for Companies Act purposes comprises the net incoming resources for the year plus realised gains on investments and was £7,231,000 (2010: £1,798,000 surplus).

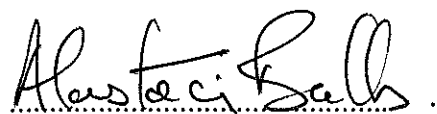
The Trustees consider that all of the Foundation's funds are unrestricted.

**Northern Rock Foundation
Balance Sheet at 31 December 2011
Company Number - 03416658**

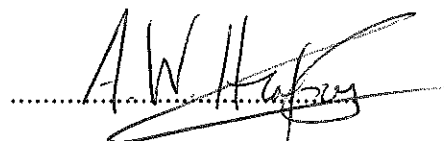
	Note	2011 £'000	2010 £'000
Fixed Assets			
Tangible Fixed Assets	10	866	892
Investments under fund management	11	33,495	32,734
Programme-related investments	12	1,284	2,524
		<u>35,645</u>	<u>36,150</u>
Current Assets			
Debtors	13	94	17
Short-term deposits	14	10,590	22,291
Cash at bank and in hand		910	239
		<u>11,594</u>	<u>22,547</u>
Creditors: amounts falling due within one year	15	(8,852)	(10,441)
Net Current Assets		<u>2,742</u>	<u>12,106</u>
Total Assets less Current Liabilities		<u>38,387</u>	<u>48,256</u>
Creditors: amounts falling due after more than one year			
Grants authorised and not yet paid	16	(2,395)	(4,801)
Net Assets		<u>35,992</u>	<u>43,455</u>
Unrestricted Funds			
General Reserve		31,569	39,521
Revaluation Reserve		4,423	3,934
Income Funds	17	<u>35,992</u>	<u>43,455</u>

The notes on pages 18 to 26 form part of these financial statements.

The financial statements on pages 15 to 26 were approved and authorised for issue by the Board of Trustees on 15th May 2012 and signed on its behalf by:



Alastair Balls CB



Dr Anthony Henfrey CFA

Northern Rock Foundation
Cash Flow Statement for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Net cash (outflow)/inflow from operating activities	18	(12,399)	1,058
Returns on investment and servicing of finance			
Dividends on investment income		155	21
Interest on cash and short-term deposits		150	106
Interest on loans		20	46
		<hr/> 325	<hr/> 173
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(11)	(1)
Sales of tangible fixed assets		-	-
Purchase of fixed asset investments		-	-
(Increase)/Decrease in loans		1,240	983
Purchase of investments		(5,502)	(4,500)
Sale of investments		7,056	630
		<hr/> 2,783	<hr/> (2,888)
Net cash inflow/(outflow) from capital expenditure and financial investment			
Management of liquid resources			
Decrease/(Increase) in short-term deposits		11,701	707
Decrease/(Increase) in managed cash funds		(1,740)	930
Increase/(Decrease) in cash		<hr/> 671	<hr/> (20)

Northern Rock Foundation
Notes to the Financial Statements for the year ended 31 December 2011

1. Accounting policies

a) Basis of Preparation

The financial statements have been prepared under the historical cost convention, with the exception of quoted investments which are included at market value. The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities" published in March 2005, the Companies Act 2006 and applicable Accounting Standards.

b) Company status

Northern Rock Foundation (the Foundation) was established on 4 August 1997 as a company limited by guarantee. The liability of the members is limited by the Memorandum of Association to £1 each. The number of Trustees (including the Chairman) who were also members at 31 December 2011 was 10 and they are named on page 2.

c) Fund accounting

All funds are unrestricted and are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity.

d) Incoming resources

All incoming resources are included in the Statement of Financial Activities (SOFA) when the charity is legally entitled to the income and the amount can be quantified accurately.

e) Investment Income and Interest receivable

Dividends are included when receivable. Interest receivable on fixed interest securities and bank deposits is included on an accruals basis. Associated tax credits are accrued as income tax recoverable.

f) Resources expended

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Costs are included gross of irrecoverable VAT. Where costs cannot be directly attributed to particular headings, they have been allocated to activities on a basis consistent with use of the resources.

g) Grant

Grants authorised by the Trustees are provided for in the year of authorisation, irrespective of when paid.

h) Overhead and support costs

Overhead and support costs include all costs incurred in the pursuance of the Foundation's charitable activities, with the exception of those allocated to the governance of the charity.

i) Governance costs

Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. They include costs related to statutory audit and legal fees together with an apportionment of overhead costs, allocated on a time basis.

j) Investments

Investments under fund management are stated at market value at the balance sheet date. The SOFA includes net gains and losses arising on revaluations and disposals throughout the year.

Other investments include social investments in the nature of interest-free loans and other similar amounts to charitable organisations, and are recorded at cost less any provisions to reflect the non-recoverability of such amounts. The interest foregone on interest-free loans and other similar amounts is not treated as a donation to the recipient due to inherent difficulties in determining a valuation of the donation.

k) Taxation

As a registered charity the Foundation is not liable to UK Income Tax, Corporation Tax and Capital Gains Tax as long as the income it receives is applied for charitable purposes. There is therefore no tax charge in the accounts. It is unable to recover input value added tax on goods and services.

l) Pension costs

Contributions to the pension schemes are based on applicable pension costs across the participating organisations taken as a whole. The pension charge recorded in these accounts is the amount of contributions payable in the accounting year.

m) Tangible fixed assets

The cost of fixed assets is their purchase price, together with any incidental costs of acquisition. The minimum value for capitalisation is £500. Depreciation is charged so as to write off the cost over the estimated life of the asset on a straight line basis and the principal rates are as follows:

Land and buildings	50 years
Computers and equipment	5 years
Fixtures and fittings	10 years

Tangible fixed assets are reviewed for impairment at the end of each reporting period.

2. Deed of Covenant

	2011 £'000	2010 £'000
Covenant receivable	-	15,000

Under the arrangements agreed in February 2008, the Foundation received instalments of £7,500,000 each in May and October of 2008, 2009 & 2010. A new funding agreement with Northern Rock to provide 1% of pre-tax profits to the Foundation has been renewed by Virgin Money until December 2013.

3. Investment Income

	2011 £'000	2010 £'000
Interest receivable on call accounts	43	32
Interest receivable on fixed-term deposits	107	74
Loan interest	20	46
Dividends receivable	155	21
	325	173

4. Investment management fees

	2011 £'000	2010 £'000
	86	89

Aberdeen Asset Management Limited is the appointed fund manager for the Foundation. Fees are calculated quarterly in arrears, based on the market value of the Portfolio on the last business day of the quarter. The rebate between the charge intrinsic within the common investment funds and that payable by the Foundation is automatically reinvested into the Portfolio in line with the investment guidelines.

5. Charitable activities

Expenditure on charitable activities consists of grants payable together with the support costs incurred in making those awards.

	2011 £'000	2010 £'000
a) Grants payable	7,436	12,394
b) Support costs	754	857
Total Charitable Expenditure	8,190	13,251

a) Grants payable

	2011 £'000	2010 £'000
Grants authorised	7,441	11,949
Commissions authorised	290	285
Grants withdrawn or returned in current year	-	-
	7,731	12,234
Prior year grants returned	(398)	(176)
	7,333	12,058
Staff Matched Giving Scheme	103	336
Additional grants	-	-
	7,436	12,394

Details of grants payable across the different grant programmes is analysed on page 8 and a full listing of all grants awarded in 2011 can be seen in both the Annual Review and on the Foundation's website.

The Staff Matched Giving Scheme relates to employees of Northern Rock plc.

b) Support costs

	2011 £'000	2010 £'000
Direct costs	98	159
Allocated costs:		
- Salaries	561	553
- Other allocated costs	95	145
	<u>754</u>	<u>857</u>

Support costs comprise costs incurred directly in support of expenditure on the objects of the charity and include all costs relating to grant assessments, post-grant costs such as monitoring of grants and management and administration costs. A portion of support costs has been allocated to governance on the basis of staff time spent on governance issues.

6. Governance

	2011 £'000	2010 £'000
Legal and professional	19	25
Auditors' remuneration		
- Audit services	16	16
- Non-audit services	-	-
Costs of Trustees' meetings	2	3
Allocated costs:		
- Salaries	58	47
- Other allocated costs	6	12
	<u>101</u>	<u>103</u>

7. Total resources expended

	Grants payable £'000	Direct costs £'000	Salary allocation £'000	Overhead allocation £'000	Total 2011 £'000	Total 2010 £'000
Investment management fees	-	86	-	-	86	89
Grants payable	7,436	-	-	-	7,436	12,394
Support costs	-	98	561	95	754	857
Governance costs	-	37	58	6	101	103
	<u>7,436</u>	<u>221</u>	<u>619</u>	<u>101</u>	<u>8,377</u>	<u>13,443</u>

Staff costs

	2011 £'000	2010 £'000
Wages and salaries	516	488
Social security costs	57	51
Pension costs	46	61
	<u>619</u>	<u>600</u>

During the year, one employee earned emoluments, as defined for taxation purposes, of between £70,000 and £80,000. This also attracted a £7,689 employer contribution to the employee's personal pension scheme. (2010: one employee earned over £70,000)

The average number of employees, calculated on a full-time equivalent basis, analysed by function was:

	2011 Number	2010 Number
Support staff	12	12
Governance	1	1

10 of the 15 staff were employed by Northern Rock plc and seconded to the Foundation; the remaining five staff were employed directly by the Foundation.

8. Trustees' remuneration

The Trustees, who are also the directors of the Foundation, are not entitled to receive any remuneration from the Foundation.

Out-of-pocket travel, meals and accommodation expenses totalling £1,416 (2010: £1,846) were reimbursed to three (2010:four) of the Trustees during the year.

9. Pension costs

Unless they opt out, seconded employees participate in the Northern Rock (2011) Pension Scheme (the 'Scheme') which was established from 1 January 2011 to provide retirement benefits for staff. The assets of the Scheme are held in trustee-administered personal accounts which are invested separately from the assets of Northern Rock plc.

Up to 1 January 2011, staff who joined a previous scheme before 1 July 1999 participated in a funded, contracted-out, defined benefit section of the previous scheme unless they opted out. Other staff, including those employed at 1 July 1999, but not members of the defined benefit section of the previous scheme at that date, together with staff employed from 1 July 1999, participated in the contracted-in defined contribution section of the previous scheme unless they opted out.

During 2011, the Foundation paid employer's contributions in respect of the Scheme at an average rate of 10.3% (2010: 6.5% to the previous scheme). Additional National Insurance costs were incurred as a result of the defined contribution section of the Scheme being contracted-in to the State Second Pension (S2P). In addition, members of the Scheme paid contributions at an average rate of 4.9% (2010: 4.7% to the previous scheme). During 2010, the Foundation also paid employer's contributions of 31.3% of basic pensionable earnings during the period from January to March and 42.3% during the period from April to December, in respect of the contracted-out defined benefit section of the Northern Rock (2010) Pension

Scheme. In addition, members of the defined benefit section of the Scheme paid employee contributions of 5% throughout the year (2010: 5%). During 2011, the Foundation also paid employer's contributions in respect of personal pensions, for non-seconded staff, at a rate of 10% (2010: 10%).

The total pensions' charge to the Foundation's Statement of Financial Activities for 2011, in respect of employer's contributions, was £45,913 (2010: £61,200).

The defined benefit section has been accounted for in the financial statements as if it were a defined contribution scheme, as the Foundation is unable to identify its share of the underlying assets and liabilities of the Scheme. This treatment satisfies the disclosure requirements of Financial Reporting Standard 17 'Retirement Benefits'.

Further details of the Scheme can be found in the financial statements of Northern Rock plc.

10. Fixed Assets

	Freehold land and buildings £'000	Fixtures and fittings £'000	Computers and other equipment £'000	Total £'000
Cost:				
At 1 January 2011	1,005	74	147	1,226
Additions	-	1	10	11
Disposals	-	-	(42)	(42)
At 31 December 2011	1,005	75	114	1,194
Accumulated Depreciation				
At 1 January 2011	161	52	121	334
Charge for the year	20	7	8	36
Depreciation on disposals in the year	-	-	(42)	(42)
At 31 December 2011	181	59	87	328
Net book value 31 December 2011	823	15	28	866
Net book value 31 December 2010	844	22	26	892

11. Fixed assets – Investments under fund management

	2011 £'000	2010 £'000
Market value at 1 January	31,222	23,037
Cost of investments purchased	5,502	4,500
Cost of investments sold	(7,056)	(630)
Net realised/unrealised gain/(loss)	575	4,315
	<u>30,243</u>	<u>31,222</u>
Cash	3,252	1,512
Market value at 31 December	33,495	32,734
Historical cost of investments at 31 December	29,670	28,701

Geographical analysis of investments under fund management:

	2011	2010
	£'000	£'000
Sterling Fixed Interest	13,768	7,909
UK Equities	12,933	18,105
Overseas Equities:	3,589	5,233
UK Commodities	-	-
Cash	3,252	1,512
Total	33,542	32,759

12. Programme-related investments

	2011	2010
	£'000	£'000
North East Enterprise Bond	-	1,000
Charity Bank	1,000	1,000
Loans to the voluntary sector (net)	284	524
	1,284	2,524

a) North East Enterprise Bond

During 2005, the Trustees agreed to invest £1 million by way of an interest-free loan, which was repayable in October 2011. The investment was aimed at addressing the North East's enterprise deficit. This loan was duly repaid, fully and on time, in October 2011.

b) Charity Bank

During 2004, the Foundation purchased £500,000 of tier 1 capital (zero coupon non-voting preference shares) in Charity Bank. A further investment of £500,000 was made in 2005 in a tier 2 capital issue of £1 million fixed rate subordinated unsecured notes due for repayment in 2015. These notes are non-transferable and attract interest at a rate of 4% per annum. During 2010 the Trustees agreed to a one year extension of the subordinated loan.

c) Loans to the voluntary sector

The Foundation has entered into an agreement with Charity Bank whereby it will administer a loan book for the Foundation. This is reviewed each year.

During 2011, one new loan was approved up to £150,000 (2010: nil), however only £25,000 was drawn down during the year and as such £125,000 is not recognised as a liability at the year end. One loan was fully repaid £30,000 (2010: nil). During 2011, no loans have been identified by the Charity Bank or the Foundation that were causing concern regarding recoverability so there have been no provisions made to reflect a reduction in the expected amount recoverable (2010: nil).

13. Debtors

	2011	2010
	£'000	£'000
Other debtors	-	9
Prepayments and accrued interest	94	8
	94	17

14. Deposits at Northern Rock plc

At 31 December 2011, £6,047,265 (2010: £12,007,032) was held in fixed term deposits at Northern Rock plc.

15. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Accruals	40	232
PAYE	8	8
Pension	-	11
Trade creditors	48	136
Grants authorised and not yet paid	8,756	10,054
	8,852	10,441

16. Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Grants authorised and payable after 1 year	2,395	4,801

17. Summary of movements on income funds

	General reserve £'000	Revaluation reserve £'000	Total income funds £'000
Income funds at 1 January 2011	39,521	3,934	43,455
Incoming resources	339	-	339
Resources expended	(8,291)	(86)	(8,377)
Net investment gains	-	575	575
Income funds at 31 December 2011	31,569	4,423	35,992

Of the total income funds of £35,992,000, £4,494,000 relates to the revaluation reserve, as a result of carrying assets on the balance sheet at a valuation more than their original cost.

18. Cash flow

a) Reconciliation of net incoming resources to net cash inflow from operating activities

	2011 £'000	2010 £'000
Net incoming/(outgoing) resources	(8,038)	1,730
(Increase)/Decrease in debtors	(77)	33
(Decrease) in creditors	(1,589)	(22)
(Decrease) in long-term creditors	(2,406)	(563)
Interest on cash and short-term deposits	(150)	(106)
Dividends	(155)	(21)
Interest received on loans	(20)	(46)
Depreciation	36	53
Net cash (outflow)/inflow from operating activities	(12,399)	1,058

b) Reconciliation of net cash inflow to movement in net funds

	2011	2010
	£'000	£'000
Increase/(Decrease) in cash in the period	671	(20)
Increase/(Decrease) in managed cash	1,740	(930)
Increase/(Decrease) in short-term deposits	(11,701)	(707)
Change in net funds	(9,290)	(1,657)
Net funds at beginning of period	24,044	25,701
Net funds as at 31 December	14,754	24,044

c) Analysis of net funds

	1 January	Cashflow	31 December
	£'000	£'000	£'000
Cash at bank and in hand	239	671	910
Short-term deposits	22,291	(11,701)	10,590
Managed cash	1,512	1,740	3,252
	24,044	(9,290)	14,752

19. Related party transactions

Certain grants have been made to other charities and organisations that have common Trustees with the Foundation. All such grants awarded have been made using the same guidelines applied to all applications, and the Trustees neither take part in the decision-making process nor benefit from the giving of such grants.

