

Northern Rock plc
Summary Annual Report 2005



MISSION STATEMENT

Northern Rock is a specialised lending and savings bank which aims to deliver superior value to customers and shareholders through excellent products, efficiency and growth.

COMPANY STRATEGY

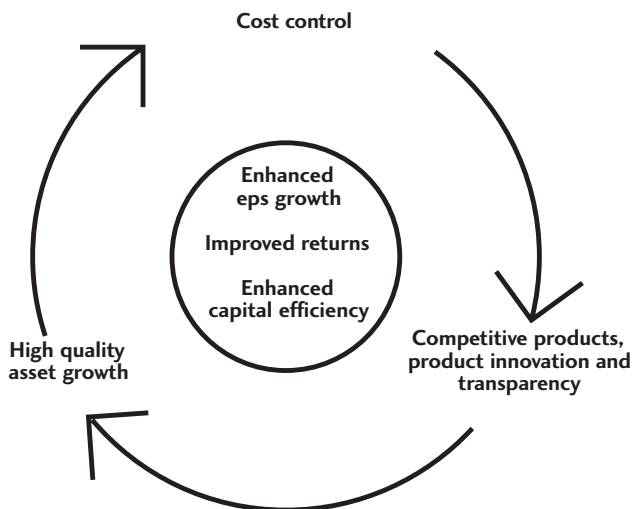
Northern Rock is a specialised lender providing funds for residential mortgages, secured commercial lending and personal finance. We obtain funds from both on-shore and off-shore personal savings, wholesale money markets, covered bonds and from the securitisation of mortgage assets.

The Northern Rock strategy encompasses efficiency, growth and value for both customers and shareholders.

Efficiency is paramount to the Northern Rock business strategy. Cost efficiency is enhanced by low cost, effective distribution and enables competitive pricing. Capital efficiency is achieved by optimising the use of debt and equity capital.

By growing lending and improving the mix of higher margin products, Northern Rock aims to grow earnings and improve returns to shareholders, at the same time as providing innovative and consumer friendly products to our customers.

THE VIRTUOUS CIRCLE



CHAIRMAN'S STATEMENT

Northern Rock's results for 2005 further reinforced our position as the most cost effective mortgage lender in the UK. We remained focussed on residential loans, commercial lending and personal credit, raising funds through our four main funding arms – retail funding, wholesale funding, securitisation and covered bonds. Once again, we hit all of our strategic goals and grew both assets and profits to record levels. I congratulate the executive team on another impressive performance despite strong competition and increased regulation.

As one of the lowest-cost lenders in Europe, we can run our business on some of the tightest interest margins in the world, giving both savers and borrowers excellent value. Since 2001 Northern Rock has halved its interest margin while improving its cost to income ratio.

As I remarked last year, Northern Rock is a global company in terms of where it raises funds, a national company in terms of where it lends but a regional company in terms of where it mainly employs people. During 2005 we opened a capacious extension to working facilities at Northern Rock House in Gosforth, which will be developed further in the coming years, and announced the development of a new office complex at Rainton Bridge in Sunderland. The first phase is planned to open in 2007.

ECONOMIC AND MARKET BACKGROUND

The UK economy looks set to continue growing in 2006. With the Bank of England

Base Rate still low by historical standards, continued low unemployment, well controlled inflation and stable economic growth, the residential mortgage market remains liquid. House price inflation has eased, but we still see little prospect of a severe correction in house prices, given that mortgages remain comparatively affordable and that credit quality remains good.

We fund our lending from retail deposits, wholesale funding, securitisation and covered bonds. All four funding arms are working well, and give us access to large international markets so that the supply of affordable funding does not constrain the growth of high quality lending.

SOCIAL RESPONSIBILITY

Northern Rock's primary social responsibility remains to prosper and share that prosperity with shareholders and other stakeholders. By offering competitive rates, we benefit customers. By achieving sustainable growth, we can create employment mainly in our regional base, offer excellent working conditions and contribute to the local economies in which we operate.

We believe that Northern Rock will prosper by recruiting from all sections of the community, by adopting flexible employment practices that suit those who want to balance life and work, by providing good facilities for staff and by minimising harmful impacts on the environment from our activities. There is therefore no

conflict between creating shareholder value and being socially responsible. To ensure that we set the highest possible standards of personal and corporate ethics, provide good customer service and give employees a good working environment, we encourage assessments by external agencies and support Diversity and Work-Life Balance Initiatives.

The significant expansion of our Head Office in Gosforth provided the region with around 500 new jobs during 2005 and the new office development in Sunderland will create capacity for an additional 2,500 new jobs in the region.

We also remember those not benefiting directly from our prosperity. In 2005, Northern Rock was the second most charitable FTSE 100 company, because of its donation of 5% of pre-tax profits to The Northern Rock Foundation. In 2005 this amounted to a remarkable £24.7 million, allowing the Foundation to continue its empowerment of charities and community causes in the North-East and Cumbria. I am particularly pleased that in addition to our corporate stance, our staff continue to take part in voluntary initiatives, fund-raising, mentoring and secondment programmes, and that the Foundation now doubly matches staff giving.

CORPORATE GOVERNANCE

We continue to comply in full with the Combined Code on Corporate Governance except where disclosed in the Corporate Governance Statement. The Board's procedures

and practices ensure that it identifies and controls risks to the business in a transparent and accountable way. The results of our Board evaluation and appraisal process are summarised in the Corporate Governance statement.

Sir Ian Gibson will succeed Sir George Russell as the Company's Senior Independent Director on 25 April 2006, at the conclusion of the Company's AGM, when Sir George will retire from office. Sir Ian became a Non-Executive Director of the Company in September 2002. I would like to thank Sir George sincerely for 21 years of outstanding service on the Board of Northern Rock plc and Northern Rock Building Society before that.

We intend to hold another Corporate Governance day in London in October 2006, to review Corporate Governance with our major shareholders.

TREATING CUSTOMERS FAIRLY

The high-level principles set out by the Financial Services Authority require that all regulated firms treat their customers fairly. I am pleased to report that the fair treatment of customers is already embedded in the culture of Northern Rock. This is clearly demonstrated through our open, transparent approach and through our various customer pledges – which are unique in the industry – as well, of course, as our competitive prices. However, we will continue to develop our methods to ensure we comply in full with all key principles. Consumer

CHAIRMAN'S STATEMENT (CONTINUED)

confidence is of great importance to our business and we remain committed to fair and decent treatment of our customers.

DIVIDEND

Your Board is recommending a final dividend of 20.7 pence per share, making a total for the year of 30.1 pence – an increase of 13.6% on 2004.

CONCLUSION

We have once again grown the company strongly in 2005. Our strategy remains to keep costs low, invest in product and process innovation, give our customers transparency and so add low-risk assets to our balance sheet to provide attractive returns to our shareholders. We fund this growth through retail, wholesale, covered bonds and securitisation.

I pay tribute to all the employees of Northern Rock who contributed to this success in 2005.

Dr M W Ridley
28 February 2006

In 2005 Northern Rock delivered excellent results including:

- RECORD UNDERLYING ATTRIBUTABLE PROFITS OF £308.1 MILLION – AN INCREASE OF 13.6% OVER 2004 PROFORMA RESULTS
- UNDERLYING ASSETS OF £81.1 BILLION – AN INCREASE OF 24.9%
- RECORD NET LENDING OF £14.6 BILLION – AN INCREASE OF 12.6% AND A MARKET SHARE OF 14.5%
- RATIO OF COSTS TO ASSETS IMPROVED TO 0.34% (2004 – 0.37%)
- UNDERLYING RETURN ON EQUITY OF 20.8%
- TOTAL UNDERLYING EARNINGS PER SHARE 74.3p – AN INCREASE OF 13.1% OVER 2004 PROFORMA RESULTS
- TOTAL DIVIDEND PER SHARE 30.1p – AN INCREASE OF 13.6%
- THE NORTHERN ROCK FOUNDATION – SUPPORTING CHARITABLE CAUSES – TO RECEIVE £24.7 MILLION

OVERVIEW

2005 has been another good year for Northern Rock. In a competitive environment, we have continued to deliver against our strategic targets and we are pleased to announce results that once again show strong growth, record profit and improved underlying earnings per share.

These results reflect our clear strategy. Our focus is to deliver shareholder value through high quality growth, driving down unit costs to improve cost efficiency, and delivering a strong return on equity. This has been achieved whilst maintaining high credit quality, through responsible lending and our commitment to retaining existing customers. We have also kept good customer service levels. The principles of transparency and treating customers fairly are

well embedded in the culture and operations of our business.

Cost efficiency remains key to our strategy. Effective cost control drives down unit costs, which allows us to offer an excellent range of innovative, price driven products that enhance our ability to attract and retain high quality customers.

Our core products, mortgages and retail savings, all performed well in 2005, supported by our multi-channel distribution strategy. We continued to expand our franchise throughout the year, opening several specialist mortgage branches in key cities. We strengthened links with mortgage clubs and expanded our mortgage operation to Northern Ireland, where we offer our full range of competitive lending products.

Our core products are complemented by the sale of protection products, offered in conjunction with our insurance partners. These are sold on a needs-driven basis, offering choice and transparency to our customers.

During 2005, we invested significantly in people, systems and premises, to support increased business volumes. We have continued to expand our e-business links with both intermediaries and direct customers. At the end of 2005, over 50% of all mortgage applications were being submitted online, enhancing customer service and further improving cost efficiency.

The introduction of the new 'Northern Rock Online' system for intermediaries offers instant online decisions and excellent case tracking facilities, which improves service and efficiency. Our aim is to have the majority of intermediaries using the system as their main channel for business with Northern Rock.

In addition to the expansion of our Gosforth headquarters, we announced the development of a new office complex at Rainton Bridge, in Sunderland. When the first phase opens in 2007, the new facility will have potential for up to 2,500 new jobs.

LENDING

During 2005 we once again delivered record levels of low risk lending. Gross lending was £26,879 million, an increase of 15.2% over the previous year, with net lending of £14,555

million, an increase of 12.6%. We achieved gross residential lending of £23,618 million, an increase of 17.8% over 2004 and net residential lending of £13,350 million, an increase of 17.3%, which represented 14.5% of the UK market.

In residential lending, we continued to apply the proven stance of mixing competitively priced mortgages with lifestyle and bundled credit products. Our mix during the first half of 2005 reflected customers' preference for fixed rate products, which shifted in the second half towards our lifestyle range, including Together.

We expect the gross mortgage market to remain competitive and whilst interest rates remain low by historical standards, there is still a considerable incentive to refinance existing loans. As a result the remortgage market, which accounted for around 45% of UK gross lending in 2005, will remain strong. Our transparent product stance and competitive pricing will enable us to attract and retain a high proportion of these customers.

Appetite to lend must be adapted to economic conditions and as a result, we adopted a more cautious approach to both commercial and personal unsecured lending during 2005. Even so, we achieved growth in both of these books, maintaining good quality and an appropriate balance relative to our overall assets.

FUNDING

2005 saw a strong performance in each of our four funding arms – retail funding, wholesale funding, securitisation and covered bonds.

Retail funding remains important to us. We attract funds through our broad distribution platform, offering attractive savings products through branch, postal, telephone and online channels. We funded strongly during the year, attracting £2,809 million of new retail funds – a record full year performance – resulting in total retail balances of £20.1 billion at the year end. We displayed particular strength in fixed rate bonds and Silver Savings accounts for the over 50s. Our contractual guarantees and unique savings pledge ensure we remain at the forefront of the industry in treating customers fairly.

Our Treasury operations achieved a good balance of traditional wholesale funding. It is not a separate profit centre and is predominantly engaged in managing interest rate risk and currency risks for the business. We have continued to develop our non-retail funding in international markets setting up a Canadian Commercial Paper programme in May 2005, to complement our established programmes in Europe, the US and the Asian markets.

Our securitisation programme continued to provide a strong source of funding, reflecting investor appetite and the high quality of our loan books. During 2005 we issued £13.5 billion of securitised notes, with issuance from residential and commercial loan

portfolios. We also enhanced our ability to fund by issuing our first private placement. Advances to customers subject to securitisation now amount to £39.1 billion, representing 56% of our lending portfolios. In addition, we also undertook two Covered Bond transactions broadening the geographical distribution and timespan of our funding.

As leading innovators, we executed 'Whinstone', a first deal of its type in the UK securitisation market during 2005. This involved the transfer of a substantial proportion of the residual risk in securitisations, completed up to the end of 2004, to third party investors. We are committed to continue this process going forward. In recognition of this and the low risk nature of our assets, Standard & Poor's rating agency moved Northern Rock's long term credit rating to 'positive outlook'.

CREDIT QUALITY

The credit quality of our assets remains strong. Asset quality is key to our strategy and therefore, our asset growth has not been achieved at the expense of quality. Through well controlled, targeted lending, we have achieved high growth, whilst maintaining quality and controlling arrears.

We use scorecards in residential and personal lending, with rigorous underwriting controls focussed on higher risk and marginal cases. These are supported by tests for consumer indebtedness and affordability. Our behavioural rescoring models ensure that emerging default

and loss profiles are identified quickly and fed back into the front end underwriting process. No significant credit deterioration was identified in 2005.

The arrears performance of our residential lending book reflected this combination of sound lending controls, with 0.39% of accounts three months or more in arrears compared with 0.37% in December 2004. Our residential arrears remain below half the industry average.

The proportion of personal unsecured loan arrears and commercial loan arrears also remain very low, reflecting our consistent policy of attracting only high quality lending in these areas. Our provisioning policies (using data from our Basle II capital models) remain prudent.

Our strategy is predicated on high quality asset growth supported by low operating costs and low cost of bad debt. We do not compromise the stance on quality to achieve asset growth.

BASLE II

Northern Rock expects to benefit from the new capital requirements of Basle II and we continue to make good progress towards meeting all of the necessary criteria. We intend to adopt the Internal Ratings Based (IRB) approach for credit risk and have implemented the core credit models to ensure compliance with Pillar 1 of the accord. The models are now embedded within our risk management

processes. Given the high quality of our balance sheet and our responsible lending policies, we continue to expect a reduction in risk weightings under the new rules.

OUTLOOK

As we expected, the housing market has been resilient. UK economic fundamentals are set to remain supportive. Interest rates and unemployment are both likely to remain at low levels. Household incomes should continue to grow and housing demand is likely to outstrip supply in the medium-term. Low debt servicing costs means that mortgage affordability remains good. Against this background, we anticipate little change in the overall credit quality and performance of our lending. Remortgaging is likely to remain active going forward as borrowers continue to manage household budgets.

I am pleased to be able to report another year of sustained business performance. We are focussed on delivering our strategic targets, which remain unchanged. We continue to build on the foundations of our unit cost advantage, together with our proven ability to attract and retain high quality customers. Our international funding platform, multi-channel distribution platform and sustained investment in buildings, systems and people give us confidence that our business model will continue to deliver high quality growth and enhanced shareholder value.

Adam J Applegarth
28 February 2006

SUMMARY DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION

Details of the remuneration policy are set out in the Directors' Remuneration Report in the full copy of the Annual Report and Accounts. A summary of the key features of this report and Directors' individual remuneration is set out below.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The Remuneration Committee believes that the continuing improvement in the performance of Northern Rock depends on individual contributions made by the Executive Directors. For this reason, the remuneration policy is designed to provide competitive packages to motivate, reward and retain Executive Directors of high quality and to align their interests with those of shareholders.

The Board has adopted, on the recommendation of the Remuneration Committee, a remuneration policy with the objectives set out below. It is intended that this policy should continue to apply for 2006 and subsequent years:

- (i) The remuneration packages for Executive Directors are designed to be competitive in terms of market practice;
- (ii) Performance-related remuneration should seek to align the interests of Executive Directors with those of the shareholders through the imposition of stretching corporate performance targets and the

satisfaction of most short and longer term incentives in the form of shares; and

- (iii) To motivate for future achievement, a significant proportion of remuneration should be based on operational and financial performance both in the short and long term together with the individual contribution made by the Executive Directors.

ELEMENTS OF REMUNERATION

Remuneration comprises: basic salary, annual bonus, pension benefits and benefits in kind. In addition, Executive Directors and senior executives participate in certain share based incentive schemes, comprising the bonus matching plan, deferred share scheme and long term incentive plan. These share-based incentive schemes, and the annual bonus, are performance-related, and the Remuneration Committee regards them as a key element in the Executive Directors' remuneration package.

As a result of changes to the performance-related elements of remuneration in recent years (including, from 2005, the imposition of a corporate performance condition on awards vesting under the bonus matching plan and deferred share scheme, and the increase in annual bonus potential), the performance-related element of total potential remuneration has materially increased in recent years.

SUMMARY DIRECTORS' REMUNERATION REPORT (continued)

BASIC SALARY

The Committee's objective is that Executive Directors' basic salaries should be paid at an appropriate level to take account of both personal performance and of salaries within a comparator group of financial institutions.

The Committee considers that exceptional performance, whether corporate or individual, should be rewarded through bonus and incentive schemes rather than basic salary.

Salaries are reviewed annually for each Executive Director, and revised salaries took effect from 1 January 2006 as follows:

A J Applegarth	£690,000 (2005 – £625,000)
D F Baker	£455,000 (2005 – £390,000)
R F Bennett	£455,000 (2005 – £390,000)
K M Currie	£365,000 (2005 – £270,000 from 5 January 2005)
A M Kuipers	£365,000 (2005 – £270,000 from 5 January 2005)

PENSION BENEFITS

Each of the Executive Directors currently participates in the Northern Rock Pension Scheme, a contributory pension scheme which provides a pension of up to two-thirds of

pensionable salary on retirement, dependent upon service. On death in service the scheme also provides for a dependant's pension and a lump sum of four times basic salary. This pension and life assurance is provided from the scheme (to the extent permitted by legislation) and otherwise from separate arrangements.

In accordance with the terms agreed upon his appointment as Group Finance Director, the Board has approved the maintenance of pension and life assurance benefits of Mr Bennett in respect of his eligible earnings in excess of the pensions earning cap.

POLICY ON EXECUTIVE DIRECTORS' SERVICE CONTRACTS

It is the policy of the Company that Executive Directors' service contracts can be terminated by 12 months' notice given to an Executive Director at any time. Each Executive Director can terminate his employment by giving 6 months' notice.

All of the Executive Directors' contracts may be terminated immediately by Northern Rock either with (for Mr Baker and Mr Bennett) the payment of liquidated damages equal to 12 months' salary and the value of annual bonus and benefits or (for Mr Applegarth, Mr Kuipers and Mr Currie) a payment in lieu of notice equal to such amount. Mr Applegarth, Mr Baker and Mr Bennett would, in the event of a change of control of Northern Rock, be entitled to terminate employment and receive a liquidated damages payment calculated on the

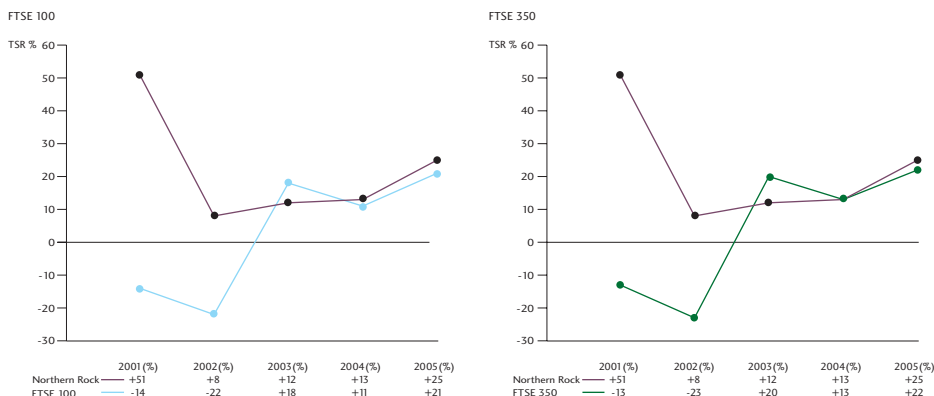
SUMMARY DIRECTORS' REMUNERATION REPORT (continued)

same basis. The terms of reference of the Remuneration Committee make it clear that the Remuneration Committee seeks, in appropriate circumstances to mitigate the amount of termination payments made to Executive Directors.

PERFORMANCE GRAPHS

The performance graphs set out below illustrate the Group's Total Shareholder Return ("TSR") performance over the preceding five years, 2001 to 2005, compared with that of the FTSE 100 Index of which Northern Rock has been a constituent since September 2001, and that of the FTSE 350 Index of which Northern Rock was a constituent prior to September 2001.

The FTSE 350 Index has been included because members of this index comprise the comparator group for long term incentive plan purposes for 2004 and prior. The performance graphs have been prepared in accordance with the Regulations.



REMUNERATION OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The remuneration of the Chairman is determined by the Remuneration Committee and that of the other Non-Executive Directors is determined by the Board as a whole, on the basis of external independent advice.

The Chairman's annual fee is £300,000 (2005 – £250,000). The Senior Independent Non-Executive Director's annual fee is £67,000 (2005 – £55,000). Non-Executive Directors receive an annual fee of £44,000 (2005 – £40,000). The fee payable for membership of each of the Audit, Nomination, Risk and Remuneration Committees is £5,000 (2005 – £3,500) or, where a Non-Executive Director is chairman of a Board Committee, the additional annual fee payable to them is £15,000 (2005 – £13,000).

SUMMARY DIRECTORS' REMUNERATION REPORT (continued)

These revised fees for the Chairman and Non-Executive Directors were determined after consideration of an extensive report by Watson Wyatt LLP on the fees paid for similar roles at banks in the FTSE 100 Index, and for Companies positioned 51–100 in the FTSE 100 Index. The Chairman and Non-Executive Directors serve the Company under letters of appointment, which are terminable by the Company at any time without liability for compensation; they do not have service contracts. The Chairman and Non-Executive Directors are entitled to fees from the Group and it is the Group's policy that they do not participate in bonus, incentive or pension schemes. However, Sir George Russell, who also served on the Board of Northern Rock Building Society, is a member of a non-contributory pension scheme established by Northern Rock Building Society under which pension entitlement accrued for each complete year of qualifying service subject to a maximum of 60% of qualifying fees. This scheme ceased to accrue benefits after 30 June 1997.

DIRECTORS' INDIVIDUAL REMUNERATION

Details of Directors' individual remuneration is set out below:

Non-Executive Directors	2005 £000	2004 £000
Dr M W Ridley (Chairman)	218	127
N A H Fenwick	43	36
Sir Ian Gibson	49	38
N Pease	53	43
M J Queen (appointed 5 January 2005)	43	–
R A Radcliffe (appointed 1 March 2005)	37	–
Sir George Russell*	60	53
Sir Derek Wanless	69	51
Sir John Riddell, Bt. (retired 27 April 2004)	–	50
Sir David Chapman, Bt. (retired 27 April 2004)	–	12
	572	410

*Sir George Russell is in receipt of a pension from the Northern Rock Building Society non-contributory pension scheme, which ceased to accrue benefits after 30 June 1997. This pension came into payment on 25 October 2005 at the rate of £12,229 p.a. in line with the scheme rules.

SUMMARY DIRECTORS' REMUNERATION REPORT (continued)

Executive Directors	Chief Executive A J Applegarth	Deputy Chief Executive D F Baker	Group Finance Director R F Bennett	Executive Director K M Currie (appointed 5 Jan 2005)	Executive Director A M Kuipers (appointed 5 Jan 2005)	Total
	£000	£000	£000	£000	£000	£000
2005						
Salaries and fees	625	390	390	270	270	1,945
Bonus	529	330	330	229	229	1,647
Total remuneration	1,154	720	720	499	499	3,592
Non cash benefits	14	10	18	11	11	64
Total emoluments	1,168	730	738	510	510	3,656
2004						
Salaries and fees	565	375	375	–	–	1,315
Bonus	368	244	244	–	–	856
Total remuneration	933	619	619	–	–	2,171
Non cash benefits	13	11	18	–	–	42
Total emoluments	946	630	637	–	–	2,213

SUMMARY DIRECTORS' REMUNERATION REPORT (continued)

BONUS MATCHING PLAN

Details of the Ordinary Shares over which the Directors have conditional rights under the bonus matching plan by year of grant are as follows:

	Date granted	Rights held under plan at 31 Dec 04	Rights granted during 2005	Market price of each share at date of grant £	Rights released during 2005	Rights held under plan at 31 Dec 05	Date of end of qualifying period
A J Applegarth	Jan 02	23,723	–	6.66	(23,723)	–	–
	Jan 03	52,253	–	6.10	–	52,253	Jan 06
	Jan 04	53,208	–	7.40	–	53,208	Jan 07
	Jan 05	–	47,618	7.73	–	47,618	Jan 08
D F Baker	Jan 02	21,621	–	6.66	(21,621)	–	–
	Jan 03	38,728	–	6.10	–	38,728	Jan 06
	Jan 04	35,472	–	7.40	–	35,472	Jan 07
	Jan 05	–	31,605	7.73	–	31,605	Jan 08
R F Bennett	Jan 02	21,621	–	6.66	(21,621)	–	–
	Jan 03	38,728	–	6.10	–	38,728	Jan 06
	Jan 04	35,472	–	7.40	–	35,472	Jan 07
	Jan 05	–	31,605	7.73	–	31,605	Jan 08
K M Currie (appointed 5 January 2005)	Jan 02	9,383	–	6.66	(9,383)	–	–
	Jan 03	22,130	–	6.10	–	22,130	Jan 06
	Jan 04	20,270	–	7.40	–	20,270	Jan 07
	Jan 05	–	18,120	7.73	–	18,120	Jan 08
A M Kuipers (appointed 5 January 2005)	Jan 02	9,383	–	6.66	(9,383)	–	–
	Jan 03	22,130	–	6.10	–	22,130	Jan 06
	Jan 04	20,270	–	7.40	–	20,270	Jan 07
	Jan 05	–	18,120	7.73	–	18,120	Jan 08

The value, calculated in accordance with IFRS 2 – Share-based Payment, of these awards is being charged to the income statement over the three year period to which they relate. In 2005 £1,138,922 was charged to the income statement (2004 £718,646).

SUMMARY DIRECTORS' REMUNERATION REPORT (continued)

DEFERRED SHARE SCHEME

Details of the Ordinary Shares over which the Directors have conditional rights under the deferred share scheme by year of grant are as follows:

	Date granted	Rights held under plan at 31 Dec 04	Rights granted during 2005	Market price of each share at date of grant £	Rights released during 2005	Rights held under plan at 31 Dec 05	Date of end of qualifying period
A J Applegarth	Jan 02	27,778	–	6.66	(27,778)	–	–
	Jan 03	52,254	–	6.10	–	52,254	Jan 06
	Jan 04	53,208	–	7.40	–	53,208	Jan 07
	Jan 05	–	47,618	7.73	–	47,618	Jan 08
D F Baker	Jan 02	21,622	–	6.66	(21,622)	–	–
	Jan 03	38,730	–	6.10	–	38,730	Jan 06
	Jan 04	35,472	–	7.40	–	35,472	Jan 07
	Jan 05	–	31,605	7.73	–	31,605	Jan 08
R F Bennett	Jan 02	21,622	–	6.66	(21,622)	–	–
	Jan 03	38,730	–	6.10	–	38,730	Jan 06
	Jan 04	35,472	–	7.40	–	35,472	Jan 07
	Jan 05	–	31,605	7.73	–	31,605	Jan 08
K M Currie (appointed 5 January 2005)	Jan 02	9,384	–	6.66	(9,384)	–	–
	Jan 03	22,131	–	6.10	–	22,131	Jan 06
	Jan 04	20,270	–	7.40	–	20,270	Jan 07
	Jan 05	–	18,120	7.73	–	18,120	Jan 08
A M Kuipers (appointed 5 January 2005)	Jan 02	9,384	–	6.66	(9,384)	–	–
	Jan 03	22,131	–	6.10	–	22,131	Jan 06
	Jan 04	20,270	–	7.40	–	20,270	Jan 07
	Jan 05	–	18,120	7.73	–	18,120	Jan 08

The value, calculated in accordance with IFRS 2 – Share-based Payment, of these awards is being charged to the income statement over the three year period to which they relate. In 2005 £1,138,937 was charged to the income statement (2004 £727,662).

SUMMARY DIRECTORS' REMUNERATION REPORT (continued)

LONG TERM INCENTIVE PLAN

Details of the Ordinary Shares over which the Directors have conditional rights under the long term incentive plan by year of grant are as follows:

	Date granted	Rights held under plan at 31 Dec 04	Rights granted during 2005	Market price of each share at date of grant £	Rights lapsed during 2005	Rights released during 2005	Rights held under plan at 31 Dec 05	Date of end of qualifying period
A J Applegarth	Jan 02	63,814	–	6.66	(17,421)	(46,393)	–	–
	Jan 03	86,066	–	6.10	–	–	86,066	Jan 06
	Jan 04	76,351	–	7.40	–	–	76,351	Jan 07
	Jan 05	–	80,854	7.73	–	–	80,854	Jan 08
D F Baker	Jan 02	47,297	–	6.66	(12,912)	(34,385)	–	–
	Jan 03	57,377	–	6.10	–	–	57,377	Jan 06
	Jan 04	50,676	–	7.40	–	–	50,676	Jan 07
	Jan 05	–	50,453	7.73	–	–	50,453	Jan 08
R F Bennett	Jan 02	47,297	–	6.66	(12,912)	(34,385)	–	–
	Jan 03	57,377	–	6.10	–	–	57,377	Jan 06
	Jan 04	50,676	–	7.40	–	–	50,676	Jan 07
	Jan 05	–	50,453	7.73	–	–	50,453	Jan 08
K M Currie (appointed 5 January 2005)	Jan 02	21,622	–	6.66	(5,903)	(15,719)	–	–
	Jan 03	32,787	–	6.10	–	–	32,787	Jan 06
	Jan 04	29,054	–	7.40	–	–	29,054	Jan 07
	Jan 05	–	34,929	7.73	–	–	34,929	Jan 08
A M Kuipers (appointed 5 January 2005)	Jan 02	21,622	–	6.66	(5,903)	(15,719)	–	–
	Jan 03	32,787	–	6.10	–	–	32,787	Jan 06
	Jan 04	29,054	–	7.40	–	–	29,054	Jan 07
	Jan 05	–	34,929	7.73	–	–	34,929	Jan 08

The value, calculated in accordance with IFRS 2 – Share-based Payment, of these awards is being charged to the income statement over the three year period to which they relate. In 2005 £850,310 was charged to the income statement (2004 £616,041).

SUMMARY DIRECTORS' REMUNERATION REPORT (continued)

Rights released during 2005 represent awards granted in 2002 which matured in January 2005. 72.7% of shares originally awarded were released to participants, the remaining 27.3% of rights have lapsed.

Nichola Pease

Chairman, Remuneration Committee

28 February 2006

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The 2005 results have been prepared using International Financial Reporting Standards (“IFRS”) as approved by the International Accounting Standards Board that, under European Regulations, are effective or available for early adoption at the Group’s first reporting date under IFRS, 31 December 2005 and which differ significantly to UK GAAP used in the preparation of previously reported financial statements.

Analysis of the results is complicated as a result of certain IFRS only having been applied from 1 January 2005. This means that the revised 2004 statutory results only include the impact of certain of the IFRS used in the preparation of the 2005 results. As a consequence we have included in comparisons set out in the Summary Financial Review, 2004 results prepared on a proforma basis, incorporating the impact of IFRS where it can be determined what the impact would have been if the accounting changes had been effective in 2004. This impact includes the treatment of interest income and fees and the reclassification of certain funding instruments from debt to non shareholders’ equity but excludes the effects of accounting for derivatives under IFRS which differs from that applied under UK GAAP.

As a consequence of the introduction of IFRS the 2005 income statement is subject to a certain amount of volatility particularly from the accounting for hedges deemed under IFRS rules to be ineffective, plus volatility arising from fair value movements on derivatives taken out 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 and excluded from underlying results.

It is the Board’s view that the 2005 underlying and 2004 proforma results provide a more appropriate assessment of the ongoing performance of the business.

SUMMARY FINANCIAL REVIEW (continued)

FINANCIAL PERFORMANCE

Summary income statements shown on a reported statutory basis and on an underlying basis for 2005 and on a reported statutory and proforma basis for 2004 are set out as follows:

	Statutory £m	2005 Adjustments £m	Underlying £m
Net interest income	752.3	(45.5)	706.8
Other income	129.0	–	129.0
Net hedge ineffectiveness and other unrealised fair value gains and losses	(56.4)	56.4	–
Total income	824.9	10.9	835.8
Administrative expenses	(249.4)	–	(249.4)
Covenant to The Northern Rock Foundation	(24.7)	(0.5)	(25.2)
Operating expenses	(274.1)	(0.5)	(274.6)
Impairment losses on loans and advances	(56.6)	–	(56.6)
Profit before taxation	494.2	10.4	504.6
Income tax expense	(144.9)	(3.0)	(147.9)
Profit for the year	349.3	7.4	356.7
Attributable to:			
Appropriations	48.6	–	48.6
Profit attributable to equity shareholders	300.7	7.4	308.1
Total	349.3	7.4	356.7
Earnings per share	72.5p		74.3p

SUMMARY FINANCIAL REVIEW (continued)

	Statutory £m	2004 Adjustments £m	Proforma £m
Net interest income	466.9	145.8	612.7
Other income	252.3	(140.5)	111.8
Total income	719.2	5.3	724.5
Administrative expenses	(218.3)	1.4	(216.9)
Covenant to The Northern Rock Foundation	(21.6)	(0.5)	(22.1)
Operating expenses	(239.9)	0.9	(239.0)
Impairment losses on loans and advances	(48.5)	–	(48.5)
Impairment of fixed asset investments	4.5	–	4.5
Profit before taxation	435.3	6.2	441.5
Income tax expense	(125.8)	(1.9)	(127.7)
Profit for the year	309.5	4.3	313.8
Attributable to:			
Appropriations	–	42.6	42.6
Profit attributable to equity shareholders	309.5	(38.3)	271.2
Total	309.5	4.3	313.8
Earnings per share	74.9p		65.7p

2005 reported statutory profit before taxation for the year increased by 13.5% to £494.2 million with profit attributable to equity shareholders decreasing by 2.8% to £300.7 million. On the same basis return on equity was 19.3% (2004 – 21.6%) and the return on mean risk weighted assets 1.22% (2004 – 1.45%).

Based upon 2005 underlying results and the 2004 proforma results, profit before taxation increased by 14.3% to £504.6 million with profit attributable to equity shareholders increasing by 13.6% to £308.1 million. On the same basis return on equity was 20.8% (2004 – 20.9%) and the return on mean risk weighted assets 1.26% (2004 – 1.29%).

IMPORTANT NOTE:

The Summary Annual Report provides a substantial amount of information contained in the Annual Report and Accounts. For a fuller understanding of the Group's results and its state of affairs, you should consult the full annual accounts, the auditor's report on those accounts, and the full Directors' Report. A full copy of the Annual Report and Accounts can be obtained, free of charge, from the Company's registrar at Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA. If you wish to receive copies of the Annual Report and Accounts in subsequent years, you may elect to do so by making a request in writing to the Company's registrar at the above address. Alternatively you may obtain the Annual Report and Accounts from the Northern Rock website www.northernrock.co.uk

SUMMARY DIRECTORS' REPORT

ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Group is the provision of housing and property finance, savings and a range of related personal financial and banking services in the UK.

A review of the business and future developments is given in the Chairman's Statement and the Chief Executive's Report.

RESULTS AND DIVIDENDS

Profit before taxation for the year ended 31 December 2005 was £494.2 million (2004 £435.3 million).

An interim dividend of 9.4p per share (2004 8.5p per share) was paid in October 2005. The Directors propose a final dividend of 20.7p per share (2004 18.0p per share) to be paid on 26 May 2006 to shareholders on the register at the close of business on 28 April 2006.

DIRECTORS

The following were Directors of the Company during the year:

Chairman	Dr M W Ridley
Executive	A J Applegarth
Directors	D F Baker
	R F Bennett
	K M Currie
	(appointed 5 January 2005)
	A M Kuipers
	(appointed 5 January 2005)
Non-Executive	N A H Fenwick
Directors	Sir Ian Gibson, CBE
	N Pease
	M J Queen
	(appointed 5 January 2005)
	R A Radcliffe, CBE
	(appointed 1 March 2005)
	Sir George Russell, CBE
	Sir Derek Wanless

SUMMARY FINANCIAL STATEMENT (continued)

CORPORATE GOVERNANCE

The Group places a high degree of importance on corporate governance and on how the Group conducts its affairs. A detailed report on corporate governance is contained in the Annual Report and Accounts.

CHARITABLE CONTRIBUTIONS

The Company covenants 5% of its annual pre-tax profits to The Northern Rock Foundation. The amount due in respect of the year ended 31 December 2005 amounts to £24.7 million. Of this amount, £14.7 million was paid in October 2005 with a further contribution of £10.0 million to be paid in May 2006. More information about the Foundation is available from:

THE NORTHERN ROCK FOUNDATION

The Old Chapel
Woodbine Road
Gosforth
Newcastle upon Tyne
NE3 1DD

Telephone: 0191 284 8412

Fax: 0191 284 8413

e-mail: generaloffice@nr-foundation.org.uk

Web: www.nr-foundation.org.uk

AUDITORS

The auditor's report on the financial statements and the auditable part of the Directors' Remuneration Report of the Group for the year ended 31 December 2005 was unqualified and did not include a statement under either section 237(2) or 237(3) of the Companies Act 1985.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board
C Taylor, Company Secretary
28 February 2006

SUMMARY CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	2005 £m	2004 £m
Net interest income	752.3	466.9
Non interest income	129.0	252.3
Net hedge ineffectiveness	(56.4)	–
Total income	824.9	719.2
Administrative expenses	(226.1)	(200.1)
Depreciation and amortisation	(23.3)	(18.2)
Covenant to The Northern Rock Foundation	(24.7)	(21.6)
Operating expenses	(274.1)	(239.9)
Impairment losses on loans and advances	(56.6)	(48.5)
Impairment of fixed asset investments	–	4.5
Profit before taxation	494.2	435.3
Taxation	(144.9)	(125.8)
Profit for the year	349.3	309.5
Attributable to:		
Appropriations	48.6	–
Profit attributable to equity shareholders	300.7	309.5
Total profit attributable to equity holders of parent company	349.3	309.5
Earnings per Ordinary Share	72.5p	74.9p
Diluted earnings per Ordinary Share	72.0p	74.3p

SUMMARY CONSOLIDATED BALANCE SHEET

At 31 December 2005

	2005 £m	2004 £m
Assets		
Cash and balances with central banks	69.2	65.3
Derivative financial instruments	1,449.8	–
Loans and advances to banks	5,073.8	3,674.2
Loans and advances to customers	70,239.9	54,768.8
Available for sale securities	5,377.1	–
Debt securities	–	4,742.2
Equity shares and other variable yield securities	–	575.6
Intangible assets	78.2	73.1
Property, plant and equipment	180.6	170.5
Other assets, prepayments and accrued income	239.9	811.2
Total assets	82,708.5	64,880.9
Liabilities		
Deposits by banks	1,536.8	1,201.6
Customer accounts	23,672.6	20,393.7
Derivative financial instruments	846.1	–
Debt securities in issue		
Securitised notes	31,156.4	22,089.9
Covered bonds	3,830.4	1,339.0
Other	17,147.8	15,435.3
Other liabilities, accruals and deferred income	843.4	815.6
Provisions for liabilities and charges	54.4	52.5
Subordinated liabilities	785.3	1,515.7
Reserve capital instruments	–	300.0
Tier one notes	223.9	200.0
	80,097.1	63,343.3
Equity Shareholders' funds		
Called up share capital	123.9	123.9
Share premium account	6.8	6.8
Capital redemption reserve	7.3	7.3
Other reserves	11.1	(2.0)
Retained earnings	1,426.5	1,401.6
Total equity attributable to equity shareholders	1,575.6	1,537.6

SUMMARY CONSOLIDATED BALANCE SHEET (continued)

At 31 December 2005

	2005 £m	2004 £m
Non shareholders' funds		
Reserve capital instruments	299.3	–
Subordinated notes	736.5	–
Total non shareholders' funds	1,035.8	–
Total equity	2,611.4	1,537.6
Total equity and liabilities	82,708.5	64,880.9

The summary financial statement on pages 21 to 26 was approved by the Board on 28 February 2006 and signed on its behalf by:

Dr MW Ridley
Chairman

AJ Applegarth
Chief Executive

RF Bennett
Group Finance Director

NOTE TO THE SUMMARY FINANCIAL STATEMENT

BASIS OF PREPARATION

The 2005 Financial Statements have been prepared using International Financial Reporting Standards (“IFRS”) as approved by the International Accounting Standards Board that, under European Regulations, are effective or available for early adoption at the Group’s first reporting date under IFRS, 31 December 2005.

INDEPENDENT AUDITOR'S STATEMENT TO MEMBERS OF NORTHERN ROCK PLC

We have examined the summary financial statement of Northern Rock plc.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the summary financial statement in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Summary Annual Report with the annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Summary Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

This statement, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

BASIS OF OPINION

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

OPINION

In our opinion the summary financial statement is consistent with the annual financial statements, the Directors' Report and the Directors' Remuneration Report of Northern Rock plc for the year ended 31 December 2005 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers LLP Newcastle upon Tyne
Chartered Accountants and Registered Auditors 28 February 2006

NOTES:

- (a) The maintenance and integrity of the Northern Rock plc 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 financial statements since they were initially presented on the web site.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

FINANCIAL CALENDAR

2006

25 January 2006	Preliminary results for the year ended 31 December 2005
25 April 2006	Annual General Meeting
26 April 2006	Ex-dividend date for final dividend
28 April 2006	Record date for final dividend
26 May 2006	Payment date for final dividend
26 July 2006	Interim results for half year to 30 June 2006
27 September 2006	Ex-dividend date for interim dividend for 2006
29 September 2006	Record date for interim dividend
27 October 2006	Payment date for interim dividend

2007

24 January 2007	Preliminary results for the year ended 31 December 2006
24 April 2007	Annual General Meeting
25 April 2007	Ex-dividend date for final dividend for 2006 (provisional)
27 April 2007	Record date for final dividend (provisional)
25 May 2007	Payment date for final dividend
25 July 2007	Interim results for half year to 30 June 2007
26 September 2007	Ex-dividend date for interim dividend for 2007 (provisional)
28 September 2007	Record date for interim dividend (provisional)
26 October 2007	Payment date for interim dividend

