

northern rock
foundation

**ACCOUNTS OF THE TRUSTEES FOR THE
YEAR ENDED 31 DECEMBER 2002**

Trustees

Chairman

Richard Harbottle

David Baker

resigned 1 October 2002

David Chapman

appointed 1 October 2002

David Faulkner

appointed 1 January 2002

Leo Finn

Charles Howick

Christopher Jobe

appointed 1 October 2002

Frank Nicholson

appointed 1 January 2002

Dorothy Russell

Julie Shipley

Peter Wainwright

resigned 3 December 2002

John Ward

The Trustees have the powers and obligations of Directors as set out in the Companies Act 1985.

Director

Fiona Ellis

Secretary

Alison Graham

Committee members

Investment and Finance Committee

Leo Finn

Chair

Charles Howick

Julie Shipley

John Ward

Richard Harbottle

ex officio

Keith Currie

Adviser

Alison Graham

Secretary

Risk and Audit Committee

Frank Nicholson

appointed 1 January 2002

David Chapman

appointed 1 October 2002

David Faulkner

appointed 1 January 2002

Richard Harbottle

ex officio

Alison Graham

Secretary

Premises Committee

Richard Harbottle

Chair

Charles Howick

Peter Wainwright

retired 3 December 2002

Registered Office

Northern Rock House, Gosforth,
Newcastle upon Tyne, NE3 4PL

Registered Charity

Charity Commissioners' Reference Number 1063906

Company Limited By Guarantee

Registered Number 3416658

Correspondence address

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

Telephone: 0191 284 8412

Facsimile : 0191 284 8413

Minicom: 0191 284 5411

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

Web site: <http://www.nr-foundation.org.uk>

Independent Auditors

PricewaterhouseCoopers LLP, 89 Sandyford Road,
Newcastle upon Tyne, NE99 1PL

Bankers

Lloyds Bank plc, Lloyds TSB,
City Office, PO Box 72, Bailey Drive,
Gillingham Business Park, Kent, ME8 0LS

Northern Rock plc, Gosforth,
Newcastle upon Tyne, NE3 4PL

Solicitors

Legal Department, Northern Rock plc,
Gosforth, Newcastle upon Tyne, NE3 4PL

Investment Advisor

Group Treasury, Northern Rock plc,
Gosforth, Newcastle upon Tyne, NE3 4PL

Investment Managers

Merrill Lynch International Bank Limited,
Quayside House, 110 Quayside,
Newcastle upon Tyne, NE1 3DX
until 22 January 2003

Gerrard Limited, Cross House, Westgate Road,
Newcastle upon Tyne, NE1 4XX
appointed 22 January 2003

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Trustees report for the year ended 31 December 2002

The Trustees present their report and the audited accounts for the year ended 31 December 2002.

The Trustees have adopted the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in October 2000 in preparing the Annual Report and financial statements of the charity.

Objectives and future developments

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. The principal objective of the Foundation is to promote the improvement of the conditions of those who are disadvantaged in society mainly, but not exclusively, in the North East of England.

Developments during the year are discussed in detail in a separate Five Year Review Report which is available on our website.

The Trustees of the Foundation at 31 December 2002, 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

Company and charity law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the charitable company's financial activities during the year and of its financial position at the end of the year. In preparing financial statements giving a true and fair view, the Trustees should follow best practice and:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in operation.

The Trustees are responsible for keeping accounting records which disclose with reasonable accuracy the financial position of the charitable company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Governance

Trustees are appointed by Northern Rock plc. The Trustees meet approximately bi-monthly to review the grant officers' recommendations and make the grant awards. A reflective meeting is also held once a year, where the Trustees review all of the policies of the Foundation. There are sub-committees dealing with investments, premises, risk, audit and financial issues. Small grants, for awards of £15,000 and under, are made by the Director and any one Trustee. These are ratified by the full Trustee Board at subsequent meetings.

Risk statement

The Trustees have considered and identified the major 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.

The Trustees review their risk management strategy at least annually or when specific circumstances require it.

Investment policy and returns

As permitted by the Foundation's memorandum and articles of association, the Trustees have given the investment managers discretion to manage the portfolio within an agreed risk profile, which aims for long-term growth with a medium risk profile.

The investment portfolio is divided between active and passive investments, the current split being 51% for the active and 49% for the passive portfolios (This is based upon market values of the two portfolios as at 31 December 2002).

Holdings in any individual company may not be greater than 5% of the market value of the active portfolio at any particular time. It is the Foundation's policy to exclude specifically investments in the tobacco industry or in Northern Rock plc apart from 500 shares issued at the time of conversion. The performance of portfolios is reported at each Trustees' Meeting and is subject to close scrutiny by the Foundation's Investment Committee.

With the closure of the Newcastle office of Merrill Lynch, who were our fund managers, the Foundation took the opportunity to review its investment policy and its fund managers. In January 2003, the Trustees appointed Gerrard Ltd as their new fund managers.

Reserves policy

The Trustees continue to operate a prudent reserve policy. The level of reserves is set so as to absorb any shock to the financial strength of the Foundation and to ensure the continuity of its operations providing sufficient time for Trustees to take appropriate action to reflect any significant change in the level of funding resulting from the covenant of profits by Northern Rock plc. Control systems exist to ensure the level of reserves is monitored at least monthly.

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.

Grants approved during the year

Grants approved in 2002 under the programmes of Empowering People with Disabilities, Urban and Rural Regeneration, Helping the Very Young, Quality of Life in the Third Age, Creative Communities, Outside In, Living in the North East, Exceptional Grants, Grants for Small Organisations and Community Training Awards came to a total of £13,068,000. The 55 largest grants in the year are listed on pages 21 to 23. A full listing of the 2002 approved grants can be found on the Foundation's website.

2002 Approved Grants

Programme	Amount of Awards (£000)	Percentage of Grants Awarded (%)	Success Rate of Eligible Applications(%)
Empowering People with Disabilities	2,280	17	77
Urban and Rural Regeneration	3,006	23	59
Helping the Very Young	856	7	36
Quality of Life in the Third Age	1,370	10	89
Creative Communities	743	6	61
Outside In	295	2	90
Living in the North East	2,103	16	77
Ideas Fund	1,000	7	100
Exceptional Grants	1,094	8	100
Grants for Small Organisations	284	2	68
Community Training Awards	37	-	100
Other	295	2	N/A
Grand Total	13,363	100	73

Trustees report for the year ended 31 December 2002

Eligibility

In 2002, the Foundation received 957 grant applications from the charitable sector. Of these 463 (48% of 2002 applications received) were ineligible. The remaining 494 eligible applications (52%) were put to the Trustees, and of these 362 were successful (that is 73% of eligible applications).

main grant programmes. As the table below identifies, 95% of these grants were awarded to projects based in the North East of England. For these purposes the North East of England includes Durham, Northumberland, Teesside and Tyne and Wear.

This compares with 69% and 79% of all grants, awarded in 2000 and 2001 respectively, going to projects based in the North East of England.

Geographical distribution

During 2002 the Northern Rock Foundation awarded £13.1 million to 362 charitable organisations under its

In the table below 'North East' refers to grants which benefit more than one county of the North East. 'Northern' refers to grants which benefit the North East and other areas outside our core area.

Geographical distribution of grants awarded under grant giving programmes

Geographical Region	Number of grants	Success rate of eligible applications (%)	Amount approved (£)	Percentage of amount approved (%)
Cleveland/Teesside	39	61	1,493	11
Cumbria	10	59	75	1
Durham	64	69	1,730	13
North East	38	71	1,771	14
North West	7	28	76	1
Northern	4	80	121	1
Northumberland	55	67	1,871	14
Scotland	13	34	244	2
Tyne and Wear	121	80	5,500	42
Yorkshire	11	48	187	1
Grand Total	362	73	13,068	100

Range of grant awards

Of the 362 grants awarded in 2002, 33% were for amounts below £10,000. Only 15% of grants awarded were for amounts of £60,000 or greater.

Range of grant awards	Number of awards	Average grant (£'000)	median grant (£'000)	Total grants (£'000)
£250,000 - £1,000,000	6	458	375	2,750
£100,000 - £249,999	10	115	109	1,154
£60,000 - £99,999	39	72	74	2,821
£30,000 - £59,999	97	44	45	4,242
£10,000 - £29,999	92	16	15	1,488
£1 - £9,999	118	5	5	613
Grand Total	362	36	15	13,068

Financial Report

The Foundation received its income from its benefactor, Northern Rock plc, through Deed of Covenant. Under the Covenant the Foundation receives 5% of the pre-tax profits of Northern Rock plc for each financial year. In 2002, this amounted to £16,312,000. The covenant relating to the last six months of 2002 will be paid to the Foundation in May 2003. This receivable payment of £8,682,000 is listed under Debtors on the balance sheet.

The Trustees incurred expenditure on support costs of £269,000 in the year. Support costs include the salaries and office costs incurred on activities in furtherance of the charity's objects (i.e. grant assessment costs). Expenditure of £414,000 was incurred on the management and administration of the charity. This resulted in a cost/income ratio of 4.35%, which was well within the 5% target set by the Trustees.

During the year, the Trustees allocated £13,068,000 to beneficiaries for capital and/or revenue grants which were for a term of between one and four years. Approximately 40% of the grants awarded in 2002 were for core funding applications. The remaining 60% were made up of capital, project funding and research applications.

During the year, the Trustees allocated £100,000 to Baltic, the centre for contemporary art in Gateshead. These unrestricted funds have been identified as discretionary in the accounts.

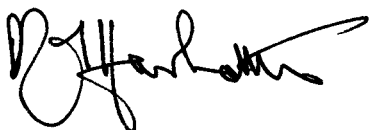
Due to the fall in the world's stock markets in 2002, the Foundation's net investments under fund management dropped by £2.1 million. The performance of these funds was compared to CAPs and slightly outperformed the benchmarks set.

The Trustees are confident that the Deed of Covenant will provide the Foundation with a secure income stream which they expect, at least, to keep pace with inflation.

Independent Auditors

Following the conversion of our auditors, PricewaterhouseCoopers, to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 15 January 2003 and the Trustees appointed its successor, PricewaterhouseCoopers LLP. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

On behalf of the board of Trustees



Richard Harbottle
Chairman – Board of Trustees

Date: 11th March 2003

Independent Auditors' report to the members of the Northern Rock Foundation

We have audited the financial statements which comprise the statement of financial activities, the balance sheets, the cash flow statement and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The trustees are also directors of the Northern Rock Foundation for the purpose of Company Law. Their responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of the directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Trustees Annual Accounts and consider the implications for our report if we become aware of any

apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report and the chairman's statement.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the charitable company at 31 December 2002 and of the net incoming resources, including the income and expenditure, and cash flows of the company for the year then ended and have been properly prepared in accordance with the Companies act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
11th March 2003

Statement of Financial Activities

Statement of Financial Activities (incorporating an Income and Expenditure Account) for the year ended 31 December 2002

	Note	Income Funds 2002 £'000	Designated Funds 2002 £'000	Total Funds 2002 £'000	Total Funds 2001 £'000
Incoming Resources					
Covenant from NR plc	2	16,312	-	16,312	14,761
Investment Income	3	565	-	565	557
Other Income	4	6	-	6	4
Grant Received	5	2	-	2	-
Total Incoming Resources		16,885	-	16,885	15,322
Resources Expended					
<i>Cost of generating funds:</i>					
Investment management fees	6	51	-	51	51
<i>Charitable expenditure:</i>					
Grants payable	7	12,996	-	12,996	10,892
Support costs	8	269	-	269	252
Management and administration	9	414	-	414	315
		13,679	-	13,679	11,459
Total Resources Expended	10	13,730	-	13,730	11,510
Net Income for the Year		3,155	-	3,155	3,812
Other Recognised Gains and Losses					
Realised gain on Investments	14	120	-	120	9
Unrealised loss on Investment	14	(2,260)	-	(2,260)	(2,224)
		(2,140)	-	(2,140)	(2,215)
Net Movement in Funds		1,015	-	1,015	1,597
Balances brought forward 1 January		23,287		23,287	21,690
Transfers between Funds	21	(100)	100	-	-
Balances carried forward 31 December		24,202	100	24,302	23,287

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 recognised gains or losses has been prepared.

The surplus for the year for Companies Act purposes comprises the net income for the year plus realised gains on investments and was £3,275,000 (2001: £3,821,000)

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

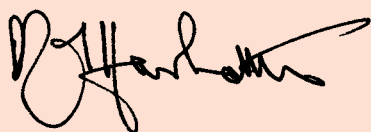
Balance Sheet

Balance Sheet at 31 December 2002

	Note	2002 £'000	2001 £'000
Fixed Assets			
Investment in Northern Rock plc	13	-	-
Tangible Fixed Assets	13	1,049	426
Investment under fund management	14	12,789	14,477
Other Investments	15	1,500	1,500
		<u>15,338</u>	<u>16,403</u>
Current Assets			
Debtors	16	8,789	7,902
Short term deposits	17	12,333	9,309
Investments	18	3	3
Cash at bank and in hand		20	52
		<u>21,145</u>	<u>17,266</u>
Creditors: amounts falling due within one year	19	(9,251)	(7,664)
		<u>11,894</u>	<u>9,602</u>
Net Current Assets		<u>11,894</u>	<u>9,602</u>
Total Assets less Current Liabilities		<u>27,232</u>	<u>26,005</u>
Creditors: amounts falling due after more than one year			
Grants authorised and not yet paid	20	(2,930)	(2,718)
		<u>24,302</u>	<u>23,287</u>
Net Assets		<u>24,302</u>	<u>23,287</u>
Unrestricted Funds			
Income	21	24,202	23,287
Designated	21	100	-
		<u>24,302</u>	<u>23,287</u>

The notes on pages 12 to 23 form part of these financial statements.

The financial statements on pages 9 to 23 were approved by the Trustees on 11th March 2003 and signed on its behalf by



Richard Harbottle



David Faulkner

Cash Flow Statement

Cash Flow Statement for the year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Net cash inflow from operating activities	22	3,496	3,811
Returns on investment and servicing of finance			
Dividends on investment income		178	191
Interest on cash and short term deposits		393	370
		<u>571</u>	<u>561</u>
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(623)	(426)
Purchase of fixed asset investments		-	(1,000)
Purchase of investments		(1,102)	(2,267)
Sale of investments		650	706
Net cash outflow from capital expenditure and financial investment.		<u>(1,075)</u>	<u>(2,987)</u>
Management of liquid resources			
Increase in short term deposits		(3,024)	(1,507)
Decrease in cash		<u>(32)</u>	<u>(122)</u>

Notes to the financial statements for the year ended 31 December 2002

1. Accounting Policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, with the exception of 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 October 2000 and applicable Accounting Standards.

b) Company status

The 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 2002 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.

The Foundation's sole source of revenue is from Northern Rock plc (Northern Rock) which has entered into a Deed of Covenant with the Foundation.

e) Investment income and Interest receivable

Dividends are included when received. 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. Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with use of the resources.

Support costs are grant assessment costs and include grant officers' salaries, office, communication and other costs identifiable as an integral part of the cost of carrying out the Foundation's charitable activities.

Management and administration costs are those incurred in connection with administration of the charity and compliance with constitutional and statutory requirements.

g) Grants

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

h) Investments

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

ii) Other investments includes 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.

i) 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.

j) Pension costs

The cost of providing pension and related benefits is charged to the SOFA over the employees' service lives on the basis of a constant percentage of earnings which is an estimate of the regular cost. Variations from regular cost, arising from periodic actuarial valuations are allocated over the expected remaining service lives of current employees on the basis of a constant percentage of current and estimated future earnings.

k) Operating leases

Rentals applicable to operating leases are charged to the SOFA over the period in which the cost is incurred.

l) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the SOFA.

m) Tangible Fixed Assets

The cost of fixed assets is their purchase price, together with any incidental costs of acquisition.

2. Deed of covenant

	2002 £'000	2001 £'000
Covenant Receivable	<u>16,312</u>	<u>14,761</u>

Two payments are made to the Foundation each year under the Covenant. The first payment is made on the basis of 5% of the pre-tax profits of Northern Rock based on its interim accounts and is paid within three months of their publication. The second payment is made on the basis of 5% of the pre-tax profits of Northern Rock based on its annual accounts less any payment following the

publication of the interim results. This payment is made within three months of the date of the notice of the Annual General Meeting of Northern Rock plc.

The covenant relating to the last six months of 2002 is £8,682,000 (2001: £7,784,000), and will be paid to the Foundation in May 2003.

3. Investment Income

	2002 £'000	2001 £'000
Interest receivable on call accounts	387	343
Interest receivable on fixed term deposits	–	24
Dividends receivable	178	190
	<u>565</u>	<u>557</u>

4. Other income

	2002 £'000	2001 £'000
Bank interest receivable	<u>6</u>	<u>4</u>

Notes to the financial statements for the year ended 31 December 2002

5. Grant received	2002 £'000	2001 £'000
Northern Arts	<u>2</u>	<u>—</u>

6. Investment management fees	2002 £'000	2001 £'000
Active portfolio fees	17	17
Passive portfolio fees	32	32
CAPS monitoring fees	2	2
	<u>51</u>	<u>51</u>

Merrill Lynch International Bank Limited were the appointed fund managers of the Foundation managing an active and a passive portfolio. Fees in both portfolios are incurred when the transaction

is made. Fees on the passive portfolio are charged over the life of the instruments purchased with a typical investment life of between five and seven years.

7. Grants payable analysed	2002 £'000	2001 £'000
Grants authorised	13,157	11,181
Grants withdrawn or returned in current year	<u>(89)</u>	<u>(126)</u>
	13,068	11,055
Prior year grants returned	<u>(367)</u>	<u>(362)</u>
	12,701	10,693
Staff Matched Giving Scheme	193	150
Additional grants	<u>102</u>	<u>49</u>
	<u>12,996</u>	<u>10,892</u>

Details of the 55 largest grants awarded in the current year are set out on pages 21 to 23.

Additional Grants:

The Trustees have set up a Northern Rock plc Discretionary Fund recognising the historical ties with the company. The budget for 2003 is £100,000. In 2002, under this Discretionary Fund, the Trustees awarded 50 donations totalling £98,000.

The Trustees also awarded £4,000 to various charitable organisations under their Visit and Learn Scheme. This Scheme pays towards the travel expenses of charitable organisations which are incurred in the pursuit of learning from other projects or in attending conferences/seminars etc.

8. Support costs	2002 £'000	2001 £'000
Staff costs	194	182
Office costs	<u>75</u>	<u>70</u>
	<u>269</u>	<u>252</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.

9. Management and administration	2002	2001
	£'000	£'000
Staff costs	282	203
Office costs	44	39
Publications	30	30
Consultancy	25	—
Operating leases	14	16
Legal and professional fees	4	7
External assessors	3	12
Independent Auditors remuneration		
- Audit services	4	4
- Non audit services	—	1
Costs of Trustees' meetings	8	3
	414	315

10. Total resources expended

	Staff Costs	Other Direct Costs	Other Allocated Costs	Grants Authorised	Total 2002	Total 2001
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fees	-	51	-	-	51	51
Grants payable	-	-	-	12,996	12,996	10,892
Support costs	194	-	75	-	269	252
Management and administration	282	9	123	-	414	315
Total resources expended	476	60	198	12,996	13,730	11,510

Staff costs	2002	2001
	£'000	£'000
Wages and salaries	406	323
Social security costs	30	26
Pension costs	40	36
	476	385

The number of employees whose emoluments as defined for taxation purposes amounted to over £50,000 in the year was as follows:	2002	2001
	£'000	£'000
£70,000 - £80,000	1	-
£60,000 - £70,000	-	1

All employees earning more than £50,000 participated in the pension scheme.

The average number of employees, calculated on a full-time equivalent basis, analysed by function was:	2002	2001
	Number	Number
Support costs	5	5
Management and administration	8	7

All staff were employed by Northern Rock plc and seconded to the Northern Rock Foundation.

Notes to the financial statements for the year ended 31 December 2002

11. 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 of £5,000 (2001: £3,000) were reimbursed to five of the Trustees during the year.

12. Pension costs

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

During 2002, the Foundation paid employer's

contributions of 13.8% (2001: 13.8%) in respect of the contracted-out defined benefit section of the Scheme. In addition, members of the defined benefit section of the Scheme made employee contributions of 5% (2001: 5%). During 2002, the Foundation paid employer's contributions in respect of the contracted-in defined contribution section of the Scheme at an average rate of 6% (2001:5.9%). Additional National Insurance costs were incurred as a result of the defined contribution section of the Scheme being contracted-in to SERPS. In addition, members of the defined contribution section of the Scheme made contributions at an average rate of 4.3% (2001:4.2%).

The total pensions charge to the Foundation's Statement of Financial Activities for 2002 in respect of employer's contributions was £40,000 (2001: £36,000).

The defined benefit scheme 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 requirements of Financial Reporting Standard 17 'Retirement Benefits'.

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

13. Fixed Assets

	Freehold Land and Buildings £'000	Fixtures and Fittings £'000	Computers and other Equipment £'000	Total £'000
1 January 2002	426	-	-	426
Additions	604	5	14	623
31 December 2002	<u>1,030</u>	<u>5</u>	<u>14</u>	<u>1,049</u>
Depreciation	-	-	-	-
Net book value 1 January 2002	426	-	-	426
Net book value 31 December 2002	<u>1,030</u>	<u>5</u>	<u>14</u>	<u>1,049</u>

The Foundation purchased and renovated offices in 2002 for its own use. No depreciation has been charged during the year as the Foundation

considers the above assets to be assets in the course of construction. Depreciation will begin in January 2003.

Fixed Assets – Investment in Northern Rock plc

At the 31 December 2002, the Northern Rock Foundation holds 74,333,500 Northern Rock plc Foundation shares of 25p each. These shares carry no rights to dividends but rank pari passu with the ordinary shares in respect of other distributions and in the event of a winding up. These shares do not confer any rights in relation to attendance or voting at any general meeting of Northern Rock plc. These shares have no market value, as they may not be traded on the open market.

The shares may be converted into ordinary shares of Northern Rock plc under certain circumstances, which are detailed in the articles of association of Northern Rock plc.

Contingent Share Purchase Contract

The Foundation has agreed with Northern Rock plc to a contingent share purchase contract whenever Northern Rock plc proposes to buy back shares from its shareholders. The effect of this contract is to allow Northern Rock plc to purchase an equivalent proportion of Foundation shares as are purchased on the open market from ordinary members of the public at the same price as the ordinary shares purchased, enabling the proportion of Foundation shares to Ordinary shares to remain at 15%. In 2002 no shares were bought back (2001 £Nil).

14. Fixed Assets – Investments under Fund Management

Merrill Lynch International Bank Limited were appointed as fund managers to assist the Trustees in the investment of surplus funds. Investments are held in an active and a passive portfolio. The Passive Portfolio consists of five to seven year instruments with guaranteed maturity values.

Investments in the Active Portfolio are made at the discretion of the fund managers. The Trustees overall objective is for long-term growth with a medium risk profile. Investments are recorded at their market value.

Fixed Assets	2002	2001
	£'000	£'000
Market value 1 January	14,477	15,131
Cost of investments purchased	1,227	2,245
Proceeds of investments sold	(650)	(706)
Surplus on disposal during the year	120	9
Net movement in market values	(2,260)	(2,224)
(Decrease)/Increase in cash held	(125)	22
Market value 31 December	12,789	14,477
Historical cost of investments 31 December	18,833	18,136

Notes to the financial statements for the year ended 31 December 2002

Geographical analysis of investments under fund management:

	Active Portfolio £'000	Passive Portfolio £'000	Total 2002 £'000	Total 2001 £'000
UK Equities	3,793	1,526	5,319	6,222
Overseas Equities:				
USA	576	190	766	1,053
Japanese	457	252	709	722
European	1,027	228	1,255	1,754
Pacific Basin	58	-	58	62
Other Overseas	505	4,104	4,609	4,466
Cash	73	-	73	198
Total	6,489	6,300	12,789	14,477

The unrealised loss in the year of £2,260,000 (2001: £2,225,000 loss), is made up of £2,260,000 loss (2001: £2,224,000) being the movement in net market value of invested funds, plus £Nil (2001: £1,000) being the market value movement in the year on the 500 free shares received from Northern Rock plc on its conversion to a bank.

15. Other Investments

a) Newcastle Employment Bond

During 2000, a £500,000 bond was acquired from the Newcastle Employment Bond to assist a variety of schemes to generate jobs in some of Newcastle's more neglected areas. Full repayment (guaranteed by Northern Rock plc) will be effected in five years. The Trustees agreed to accept a zero interest rate.

b) The International Centre for Life

The Foundation entered into a loan agreement with the International Centre for Life Sciences. According to the terms of the loan, the principal, £1 million, will be repaid over seven years commencing in 2004. The Trustees agreed to apply a zero interest rate to this loan.

16. Debtors

	2002 £'000	2001 £'000
Covenanted Payment from Northern Rock plc	8,682	7,784
Grant Returns	18	-
Prepayments and accrued interest	89	118
	8,789	7,902

17. Investments held at Northern Rock plc

At 31 December 2002 £12,333,000 (2001: £9,309,000) was invested on behalf of the Foundation by Northern Rock plc's Treasury Function.

18. Free Shares

The Foundation received 500 25p free ordinary shares in Northern Rock plc on its conversion to a bank on 1 October 1997. Their market value at 31 December 2002 was £3,000 (2001: £3,000).

19. Creditors: Amounts falling due within one year

	2002 £'000	2001 £'000
Accruals	325	55
Loan to Northern Rock plc	20	-
Grants authorised and not yet paid	8,906	7,609
	<u>9,251</u>	<u>7,664</u>

20. Creditors: Amounts falling due after more than one year

	2002 £'000	2001 £'000
Grants authorised and payable within 2 years	2,798	2,500
Grants authorised and payable within 3 years	132	218
	<u>2,930</u>	<u>2,718</u>

21. Summary of movements on income funds

	Income Funds £'000	Designated Funds £'000	Total Funds £'000
Income funds at 1 January 2002	23,287	-	23,287
Transfer to designated income	(100)	100	-
Total income funds after transfers	23,187	100	23,287
Incoming resources	16,885	-	16,885
Resources expended	(13,730)	-	(13,730)
Net investment losses	(2,140)	-	(2,140)
Income funds at 31 December 2002	<u>24,202</u>	<u>100</u>	<u>24,302</u>

During the year the Trustees designated £100,000 to a fund for Baltic, the centre for contemporary art in Gateshead. The Trustees' have put aside £100,000 in the event that the Baltic should successfully apply for funding to the Foundation. No application has yet been received.

Notes to the financial statements for the year ended 31 December 2002

22. Cash Flow

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

	2002 £'000	2001 £'000
Net incoming resources	3,155	3,812
(Increase) in debtors	(887)	(1,385)
Increase in creditors	1,587	958
Increase in long term creditors	212	987
Interest on cash and short term deposits	(571)	(561)
Net cash inflow from operating activities	<u>3,496</u>	<u>3,811</u>

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

	2002 £'000	2001 £'000
(Decrease) in cash in the period	(32)	(122)
Increase in short term deposits	3,024	1,506
Change in net funds	<u>2,992</u>	<u>1,384</u>
Net funds at beginning of period	9,361	7,977
Net funds as at 31 December	<u>12,353</u>	<u>9,361</u>

c) Analysis of net funds

	1 January £'000	Cashflow £'000	31 December £'000
Cash at bank and in hand	52	(32)	20
Short term deposits	9,309	3,024	12,333
	<u>9,361</u>	<u>2,992</u>	<u>12,353</u>

23. Related party transactions

Certain grants have been made to other charities and organisations that have common Trustees with the Northern Rock Foundation. All such grants awarded have been made using the same guidelines applied to all applications and the Trustees do not benefit from the giving of such grants.

Northern Rock plc has provided management and administration support to the Foundation. All services received from Northern Rock plc are paid for at cost under a Service Agreement and include using the Treasury function at Northern Rock plc.

One Trustee of the Foundation was also an executive director of Northern Rock plc.

2002 Top 55 Approved Grants

Organisation	Description	Term (Years)	Grant (£)	Programme
Keyfund Federation	To develop and extend the network of Keyfunds to young people throughout the North East and Cumbria.	3	1,000,000	Ideas Fund
Royal Grammar School	To provide bursaries.	1	500,000	Exceptional
Middlesbrough Council	Towards a new art gallery.	1	500,000	Living in the North East
Dance City	Towards a purpose built dance centre for the North East.	1	250,000	Living in the North East
Laing Art Gallery	Towards the refurbishment of key areas of the building.	1	250,000	Living in the North East
The Centre for the Children's Book	Towards the development of the building.	1	250,000	Living in the North East
Sunderland Resource Centre Ltd	Towards landscaping, sports and recreational facilities for local people in the grounds of the Valley Road primary school.	1	151,640	Exceptional
The National Railway Museum	Towards the creation of a new museum at Shildon, County Durham.	1	150,000	Living in the North East
Voluntary Organisations Network North East	To support and improve the services provided for lesbian and bisexual women in voluntary organisations in the North East.	3	121,922	Outside In
West Harton Churches Action Station Ltd	Towards the running costs of a community resource in South Tyneside.	3	112,145	Urban & Rural Regeneration
Lynemouth Day Centre	Towards continuation funding and for the expansion of a day centre in Northumberland for older people.	3	110,920	Third Age
Community Council of Northumberland	To support a team of rural outreach workers.	3	106,267	Urban & Rural Regeneration
Dene Valley Community Partnership	Towards the running costs of a new community resource at the centre of an isolated group of ex-mining communities near Bishop Auckland in County Durham.	3	101,000	Urban & Rural Regeneration
Northumbria Police	Towards an experimental project to tackle youth crime and disaffection, in partnership with Northumbria Police, South Tyneside Council and others.	1	100,000	Exceptional
Firthmoor Community Association	Towards a new centre in Darlington.	1	100,000	Urban & Rural Regeneration
Links Housing Advice and Support for Young People	Towards the capital and revenue costs of a new centre for homeless young people in Tynedale.	1	100,000	Urban & Rural Regeneration
Pre-School Learning Alliance	Towards development work with parent and toddler groups throughout North Tyneside.	3	96,969	Helping the Very Young (0 - 11s)
Sustrans	Towards an arts programme on a cycle route in South East Northumberland.	2	92,000	Living in the North East

2002 Top 55 Approved Grants

Organisation	Description	Term (Years)	Grant (£)	Programme
The Children's Foundation	To raise awareness and promote child safety through creative arts initiatives, in Tyne and Wear.	3	91,428	Helping the Very Young (0 - 11s)
NTC Touring Theatre Company	Towards a training programme involving graduates working with professional theatre companies in the North East and Cumbria.	3	90,000	Living in the North East
Bridge Women's Education and Support Project	To sustain and develop a training agency exclusively for women in Durham and Sunderland.	3	90,000	Urban & Rural Regeneration
Easington District Carers' Support	To employ a support worker, working with carers of people with mental health issues.	3	79,931	Supporting Disabled People
Pallion Action Group	To provide a variety of activities for young adults living in Pallion in Sunderland.	3	79,765	Urban & Rural Regeneration
Redcar and Cleveland Citizens' Advice Bureau	Towards employing a worker to give clients in Redcar and Cleveland access to debt counselling.	2	79,030	Urban & Rural Regeneration
The Learning Disabilities Federation	To continue to employ the Parent Partnership project worker in North Tyneside.	3	79,000	Supporting Disabled People
Groundwork West Durham	To support an environmental training programme in Teesdale.	2	78,602	Urban & Rural Regeneration
Third Age Learning Community	To employ a project co-ordinator trainer and to contribute towards the core and capital costs of an IT project for older people in Longbenton.	3	78,429	Third Age
Funding Information North East	To employ new staff to develop and expand the services available.	3	76,435	Exceptional
Sedgefield & District Advice and Information Service	To employ a money advice worker to support people living in outlying coalfield communities.	2	76,120	Urban & Rural Regeneration
Royal Shakespeare Company	Towards the RSC's Newcastle Season.	3	75,000	Living in the North East
The Bowes Museum	Towards the Museum's temporary exhibition programme.	3	75,000	Living in the North East
Key Enterprises (1983) Ltd	To employ an employment support worker to assist people with mental health issues into full-time employment.	3	75,000	Supporting Disabled People
Equal Arts	To provide on-going support for arts group work for older people living in the North East	3	75,000	Third Age
Ashington Joint Welfare Group of Schemes	Towards building a new one-stop-shop on the Hirst in Ashington.	1	75,000	Urban & Rural Regeneration
Owton Fens Community Association	To provide accessible support for unemployed people from disadvantaged wards to set up business and community groups.	3	75,000	Urban & Rural Regeneration
Auckland Youth and Community Centre	Towards the running costs of a youth and community resource on a large estate near Bishop Auckland.	3	74,454	Urban & Rural Regeneration
North East Pensioners Association	To provide core funding to ensure older people actively contribute to local and central government debates representing the North East.	2	74,367	Third Age

Organisation	Description	Term (Years)	Grant (£)	Programme
Northumberland County Blind Association	To continue to fund the information manager's post and to support outreach work.	2	71,038	Supporting Disabled People
The Shaw Trust	To employ a volunteer co-ordinator to develop a healthy living project with learning disabled people in Stockton.	3	69,545	Supporting Disabled People
Amber Film Photography	Towards work with excluded communities in the North East.	3	67,500	Creative Communities
BBC - Newcastle	To support two co-ordinators to run a community bus for broadcasting and learning opportunities in the North East.	1	67,500	Exceptional
Wansbeck Toy Library	Towards staff salaries.	3	67,500	Helping the Very Young (0 - 11s)
Rethink	To employ a worker to facilitate a telephone network, linking new and isolated carers of people with mental health issues in County Durham.	3	65,750	Supporting Disabled People
Carers' Association	Towards an office manager's post.	3	64,100	Supporting Disabled People
Hartlepool MIND	Towards core funding and the administrator's salary.	2	61,816	Supporting Disabled People
North Pennine Highlights	To provide an ongoing programme of performing arts activities for rural communities.	3	60,000	Creative Communities
Open Clasp Theatre Company	To core fund over three years.	3	60,000	Creative Communities
Border Women's Aid	Towards the salaries of six part-time playworkers.	1	60,000	Helping the Very Young (0 - 11s)
Contact a Family	Towards the salary of the regional development officer working throughout the North East.	3	60,000	Supporting Disabled People
North Tyneside District Disability Forum	To extend the hours of the administrator and the sexual health worker.	3	60,000	Supporting Disabled People
Help the Aged	Towards a new service installing safety and security equipment in the homes of vulnerable older people in the County Durham area.	3	60,000	Third Age
Retired and Senior Volunteer Programme of CSV	Towards core costs for the administration and development officer, in the North East.	2	60,000	Third Age
Thornaby F.C. Community Project	To support volunteers providing a gardening service for older people.	2	60,000	Third Age
Wearside CAB Money Advice Service	Towards employing a worker to provide money advice and debt counselling directly to older people.	2	60,000	Third Age
West End Community Wardens	To support a befriending scheme for older people from the white, Asian and Chinese communities in Newcastle.	3	60,000	Third Age

Northern Rock Foundation

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northern rock
foundation

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Registered Charity:

Charity Commissioners' Reference Number 1063906

Company Limited By Guarantee:

Registered Number 3416658

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