



the northern rock foundation

accounts of the trustees
for the year ended
31 December 2007

Trustees

Alastair Balls CB (Chair)

Sir David Chapman Bt DL
resigned temporarily 5 October 2007

Barbara Dennis OBE
resigned 9 March 2007

David Faulkner OBE

Jackie Fisher CBE
appointed 1 October 2007

Dr Anthony Henfrey

Lord Howick of Glendale
retired 31 December 2007

Christopher Jobe
resigned temporarily 22 September 2007

Lorna Moran MBE

Frank Nicholson

Dr Barbara O'Toole
appointed 1 October 2007

Julie Shipley
resigned temporarily 22 September 2007

Lord Stevens of Kirkwhelpington
appointed 1 May 2007
resigned 15 August 2007

Sally Thomas
appointed 1 January 2007

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

Foundation Director Fiona Ellis

Foundation Deputy Director Anne Burleigh
(until 30 April 2008)

Director of Finance and Resources Alison Graham *(covered by Anji Sowerby from 1 May 2007 to 4 February 2008)*

Director of Policy and Communications Rob Williamson

Secretaries (joint) Fiona Ellis, Alison Graham

Committee Members

Investment Committee *until 11 December 2007*

Sir David Chapman Bt DL (Chair)

Dr Anthony Henfrey

Lord Howick of Glendale

Julie Shipley
resigned temporarily 22 September 2007

Keith Currie (Adviser)

Steve Johnson (Adviser)

Alison Graham/Anji Sowerby (Secretary)

Finance, Audit and Risk Committee

until 11 December 2007

Christopher Jobe (Chair)
resigned temporarily 22 September 2007

David Faulkner OBE

Frank Nicholson

Alison Graham/Anji Sowerby (Secretary)

Finance, Audit and Risk Committee

formed 11 December 2007

Dr Anthony Henfrey (Chair)

David Faulkner OBE

Frank Nicholson

Dr Barbara O'Toole *appointed 20 December 2007*

Alison Graham/Anji Sowerby (Secretary)

Remuneration Committee

Lorna Moran MBE (Chair)

Sir David Chapman Bt DL

David Faulkner OBE

Premises Committee

disbanded 11 December 2007

David Faulkner OBE (Chair)

Lord Howick of Glendale

Christopher Jobe
resigned temporarily 22 September 2007

Alastair Balls (ex officio)

Alistair Leslie (Adviser)

Alison Graham (Secretary)

accounts of the trustees 2007

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Trustees' report for the year ended 31 December 2007

The Trustees present their report and the audited accounts for the year ended 31 December 2007. The Trustees have adopted the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in March 2005 in preparing the Annual Report and financial statements of the charity.

Governance and management

The Foundation is a charitable company limited by guarantee and was set up on 4 August 1997. It is governed by a memorandum and articles of association. The Trustees of the Foundation have been appointed by the founder and sole donor, Northern Rock plc, which also determined the length of their service. While the Board of Trustees has not influenced the selection of its own members and therefore has undertaken no formal assessment of skills, the Trustees believe that they have available to them all the necessary skills to manage the Foundation's affairs. The appointment of Trustees became the responsibility of the Trustee Board on the date of the temporary taking into public ownership of Northern Rock plc.

The Trustees meet to discuss the Foundation's business and to make main grants (those over £20,000) five times each year. They also have a Reflective Meeting to consider general issues of policy and to discuss possible developments to policy and practice generally once each year. There are committees dealing with finance, audit, investment, risk and remuneration. The Premises Committee was disbanded in December 2007.

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

management of administration of grants and the processing and assessment of applications prior to Trustees' consideration is delegated to the Foundation's Director and staff team.

Induction of new Trustees takes the form of: 1, issue of an information pack; 2, a meeting with senior Foundation staff; and 3, an invitation to accompany members of the grants team on visits either before or after a grant has been made. The information pack contains recent Trustees' papers for Board meetings, annual reviews, accounts (the last two items for at least the previous year; others are available if desired) and current grant-making guidelines. Relevant policy papers or discussion papers relating to current or proposed grant-giving programmes are supplied as needed, as are relevant Charity Commission publications describing the duties and responsibilities of Trustees. Trustees are routinely asked if they have any training or information needs. During 2007, new Trustees were given induction training and several Trustees attended a number of relevant events and conferences.

The Trustees of the Foundation at 31 December 2007, 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. Events relating to the business of the Foundation's sole funder, Northern Rock plc, led three Trustees to stand down temporarily during the final quarter of the year. These Trustees informed the Chairman that, while they did not believe they were yet subject to Conflicts of Interest between the bank and the Foundation, the circumstances at the plc and their own connections with it might lead them to be conflicted or to give the appearance of conflict. In the interests of the Foundation's reputation and for the sake of full transparency they therefore stood down temporarily. These Trustees intend to resume their duties when the risk of conflict is over. Until then they will not participate in Foundation affairs and will receive no papers.

The Foundation also benefited from access to advisers from the Northern Rock Plc; however to avoid any potential conflict of interest, no contact has been made with these advisers since the start of the current difficulties.



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.

So far as each Trustee is aware, there is no relevant audit information of which the charity's auditors are unaware, and each Trustee has taken all the steps that he/she ought to have taken as a Trustee in order to make himself/herself aware of any relevant audit information and to establish that the charity's auditors are aware of that information.

Objectives and activities

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

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

The Foundation pursues this primary objective through investing in non-profit-distributing organisations. It also directly provides or commissions services, conducts research by commissioning others and provides loans on a variety of terms. The Foundation's senior and grant-making staff and one of the Trustees serve on various external bodies where this advances the achievement of the Foundation's primary objective.

Grant-making policy

As a large and engaged grant-maker with a wide range of interests, the Foundation has had numerous grant-making programmes and special initiatives, a set of policies for delivering them and detailed guidance for applicants. A new series of programmes was launched at the end of 2006 to be operational for 2007. It was the Trustees' intention that these programmes would run for at least five years. During 2007, these policies, practices and other activities were described in detail on the website: www.nr-foundation.org.uk and in printed guidelines obtainable from the Foundation's offices. Information about them is still available from the Foundation's offices. A full account of how the Foundation pursued its policies during 2007 is available in its *Annual Review*, also available on the website or in print at no charge.

However, the events referred to above rendered the Foundation's financial future uncertain. This led the Trustees to review their programmes and operations and to reduce the number of programmes and anticipated budgets for 2008. These changes are reflected in the guidance to applicants now on the website. Until there is greater clarity about the Foundation's future this reduced programme will operate. The Trustees intend to publicise any further change through the website and through our network of stakeholders.

Achievements and performance

The Foundation's primary objective is very wide. Trustees and staff are reluctant to make claims about what has been achieved in its pursuit in any one year particularly since the majority of Foundation resources are invested in the work of others. The overarching goals are to address deeply entrenched social and economic problems that will not be 'solved' easily or quickly and which do not lend themselves to simple measurements of cause and effect. Moreover the Foundation is but one player among many – public, private and voluntary sector – pursuing similar goals. The Foundation works with grant-holders and others to evaluate its grants and projects; it collects data and anecdotal accounts of achievements attributable to its grants or to other forms of assistance; and it publishes, where possible, discussion papers or advocacy documents based on its experience. Because of this collation of information, the Foundation is confident that it has, through its grants and related activities, positively affected the lives of individuals and communities in its operating area.

The Foundation's activities and the successful disbursement of its grant budget are matters of record, but as to the effectiveness of individual grants and the collective worth of those grants it is much too early to tell, particularly for the majority of the grants which have ambitions to address chronic problems. Foundation staff monitor grants intended to achieve straightforward objectives – building refurbishment, the purchase of equipment, the provision of a regular service – and the Trustees are satisfied that they are generally successful. Where they are not staff take proportionate and sensible action. The Foundation holds to the notion that there is no failure except the failure to learn. Consequently, where an approach does not work staff try to ensure that it is not repeated, that others are advised against it and that the staff team works with grant-holders to seek alternatives.

The Foundation customarily reports on successful grants and on the success or otherwise of its special initiatives on its website, in its regular newsletter

Rock Reports and in occasional publications such as its new *Think* series. All such reports are widely available usually at no cost to the reader. The Foundation's *Annual Review* contains a detailed account of all grants made, training provided and loans issued. Distribution details of grants across the geographic and topical areas of interest are provided in the *Annual Review* (available as before).

Plans for the future

Because of the continuing uncertainty about the Foundation's sole income source, the Trustees have had to make conservative plans for 2008. Fortunately, the bank's generosity over 10 years coupled with a prudent reserve policy has allowed the Foundation to continue some of its activities in 2008. Trustees elected to reduce the number of grant-making programmes but to retain the Foundation's practice of giving sizeable and effective grants. They also decided to maintain some aspects of the Foundation's work which complement and enhance grant-making, for example, some training and development and some research and policy work.

The Trustees are aware that, as stewards of the charity's funds, they must maximise the use of its resources. They therefore very reluctantly embarked on a staff review in line with the reduction of the grants budgets. Over the first months of 2008 they plan to reduce the number of staff to 12.5 fte. This is no reflection on the quality of the staff team but a necessity forced upon them by circumstances. Until the future of Northern Rock plc is clear no further changes are expected. During the preparation of these accounts an announcement by the Chancellor taking Northern Rock plc into temporary ownership included a provision for the Foundation. Under this arrangement the Foundation would receive a minimum of £15 million per year for each of 2008, 2009 and 2010. The newly appointed Executive Chairman of Northern Rock plc was also given the task of securing a viable long-term future for the Foundation. Details of how these arrangements are to be managed have not emerged at the time of the completion of these accounts.



Grants approved during the year

The main grant programmes for 2007 were Better Buildings, Building Positive Lives, Culture and Heritage, Independence and Choice, Money and Jobs, Safety and Justice, Strong and Healthy Communities. In addition, awards were made as Special Initiatives from the Training and Development Initiatives and Policy and Influence budgets. A full listing of the 2007 approved grants can be found on the Foundation's website and in the *Annual Review* for 2007.

2007 approved grants

Programme	Amount awarded £'000	% of amount awarded	Success rate of eligible applications %
Money and Jobs	2,815	13	49
Independence and Choice	2,463	11	61
Strong and Healthy Communities	1,982	9	31
Building Positive Lives	3,181	14	47
Safety and Justice	2,107	10	72
Culture and Heritage	2,544	11	49
Better Buildings	1,908	9	29
Grants awarded under main programmes	17,000	77	45
Exceptional	100	–	N/A
Training and Development grants	1,767	8	N/A
Policy grants	130	1	N/A
Special initiatives	1,000	5	N/A
Total awarded by Trustees	19,997	91	45
Other awards	2,100	9	N/A
Grand Total	22,097	100	45

Eligibility

In 2007, the Foundation received 715 applications under the main grant programmes from the charitable sector. Of these, 317 were ineligible. Of the eligible grants, 226 were successful (that is 45% of eligible applications) and 42 were pending at the end of the year.

Geographical distribution

During 2007, £17.0 million was awarded under the Foundation's main grant programmes. As the table below identifies, 31% of the amount awarded was to projects within Tyne and Wear and 18% to projects benefiting the whole of the North East and Cumbria.

'North East and Cumbria' refers to grants that benefit more than one county in the Foundation's area of interest.

Geographical distribution of grants awarded under grant-giving programmes

Geographical area	No. of grants	Success rate of eligible applications %	Amount approved £'000	% of amount approved
Cumbria	41	49	2,524	15
Durham	24	35	1,890	11
North East and Cumbria	36	58	3,084	18
Northumberland	25	47	1,799	10
Tees Valley	31	41	2,513	15
Tyne and Wear	69	42	5,190	31
Grand Total	226	45	17,000	100

Range of grant awards

Of the 226 grants awarded in 2007 under the main grant-giving programmes, 43% were for amounts below £60,000 and 2% were for amounts of £250,000 or more.

Range of grant awards	No. of awards	Average grant £'000	Median grant £'000	Total grants £'000
Over £250,000	5	278	286	1,391
£100,000–£249,999	65	134	124	8,716
£60,000–£99,999	59	79	78	4,645
£30,000–£59,999	26	42	42	1,101
£10,000–£29,999	61	18	20	1,082
£1–£9,999	10	7	7	65
Grand Total	226	558	557	17,000

Work commissioned by the Foundation

In 2007, the Foundation embarked on several strategies to augment its grant-making. First, it decided to commission training, development and support organisations to help improve the management and financial capability of VCS groups in the region. Second, it sought to use the knowledge and experience it has gained through grant-making to try to inform and influence the policy of fellow grant-makers and of statutory bodies. This included commissioning and publishing reports on aspects of social justice which affect the work we and others do. All the commissions, whether for training or policy work, grow out of our grant-making experience or help us to expand and deepen our work.

The total value of work commissioned in 2007 is £1,233,000, which represents 6% of the grants authorised. Further details of the work commissioned in 2007 can be found on the Foundation's website and in the *Annual Review* for 2007.

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

Fund	No. of commissions	Total commissions £'000	% of amount awarded
Policy and Influence	11	627	51
Safety and Justice	2	43	3
Training and Development Initiatives	10	563	46
Total	23	1,233	100



Social investment and loans to the voluntary sector

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

The loan scheme is administered jointly by the Foundation's staff and Charity Bank. Loans are made after careful assessment and with the help of Charity Bank which provides financial and business guidance. However, decisions are taken, on advice, by the Trustees. The Foundation made one loan during the year of £300,000.

Risk statement

The Foundation's Trustees have always realised that the greatest risk to the organisation's activities would be a reduction in the annual covenant from its founder and sole funder. However, the likelihood of such difficulties as have arisen in 2007 was widely regarded as remote. Nonetheless, the Trustees ensured that they had retained sufficient resources to meet continuing commitments and have created an additional reserve designed to smooth out any fluctuations in income. It is this prudence which has allowed the Foundation to carry on with its activities while awaiting the outcome of negotiations concerning the company's future. In addition, the Trustees appointed a team of specialist advisors for the duration of the uncertainties about its own future.

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

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

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

Investment policy and returns

In keeping with best practice, the Foundation's Investment Committee reviewed the performance of its investment managers in 2007 and invited the then fund managers to bid against a field of others for the task of investing the Foundation's reserve. Following applications and interviews, the Investment Committee appointed Aberdeen Asset Management Limited as the organisation most closely meeting the criteria laid down in their Investment Strategy tender document.

In keeping with the Foundation's memorandum and articles of association, the Trustees have given the investment managers discretion to manage the portfolio within agreed investment objectives.

The proposal accepted from Aberdeen Asset Management Limited is to invest in Common Investment Funds with a mix of equity, fixed interest and cash investments in the portfolio to deliver an appropriate balance of risk and return. The transfer of investments between fund managers started in July 2007 and the new managers have taken a cautious approach in realising holdings and the subsequent investment into Common Investment Funds.

Trustees monitored the performance of all funds under management through the Investment Committee during 2007 which was satisfied overall that the decisions made and returns received were

in line with the guidelines and benchmarks set down. Performance in 2008 will be monitored by the newly formed Finance, Audit, Investment and Risk Committee.

Asset Class	Benchmark %	Range %	Actual %
UK Equities	60	40–80	45
Global Equities (ex UK)	10	0–20	15
UK Bonds	30	20–50	39
Cash	0	0–10	1
Total	100		100

Reserves policy

In 2007, the Trustees continued to operate a prudent reserves policy. The level of reserves was 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. Since the events of late 2007, Trustees have used the reserve while waiting for further certainty about the longer-term future.

Closing reserves as at 31 December 2007 were £29,334,000 (2006: £36,168,000).

Liquidity policy

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

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

Financial report

The Foundation receives 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 2007, this amounted to £14,803,000.

During the year, the Trustees allocated £17,000,000 to beneficiaries of their main grant programmes for capital and/or revenue grants which were for a term of between one and three years. Approximately 52% of the grants awarded in 2007 were for core funding; the remaining 48% were made up of capital, project funding, research and training and capacity building.

The Trustees incurred expenditure of £1,439,000 being £207,000 (2006: £82,000) in governance costs and £1,232,000 in costs relating to grant awards. The rise in governance costs is directly attributable to measures taken in response to the difficulties encountered at the Northern Rock plc.

Due to the rise in the world's stock markets in 2007, net investments under fund management rose by £773,000.

Independent auditors

In keeping with good practice, the Trustees considered whether or not to appoint new auditors. Although they were fully satisfied with the performance of PricewaterhouseCoopers LLP, they decided at an extraordinary meeting of Trustees on 22 September 2007 that the appointment of auditors unconnected with Northern Rock Plc would be helpful to all parties at this time. Trustees appointed PKF (UK) LLP with effect from 28 September 2007.

On behalf of the board of Trustees



Alastair Balls CB
Chairman – Board of Trustees
12 May 2008



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

We have audited the financial statements of The Northern Rock Foundation for the year ended 31 December 2007 which comprise the statement of financial activities, the balance sheet, the cash flow statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charity's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charity's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

The responsibilities of the trustees (who are also the directors of the company for the purposes of company law) for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of trustees' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the trustees' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the charity 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 trustees' remuneration and other transactions is not disclosed.

We read the trustees' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charity's affairs as at 31 December 2007 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the trustees' report is consistent with the financial statements.

PKF (UK) LLP
Registered Auditors, London, UK
12 May 2008

Statement of Financial Activities

(incorporating an Income and Expenditure Account) for the year ended 31 December 2007

	Note	Total funds 2007 £'000	Total funds 2006 £'000
Incoming Resources			
Covenant from Northern Rock plc	2	14,803	31,337
<i>Incoming resources from generated funds:</i>			
Investment Income	3	1,634	1,395
<i>Other incoming resources:</i>			
Other Income	4	60	52
Total Incoming Resources		16,497	32,784
Resources Expended			
<i>Cost of generating funds:</i>			
Investment management costs	5	69	61
<i>Charitable activities</i>	6	23,937	28,785
<i>Governance costs</i>	7	207	82
Total Resources Expended	8	24,213	28,928
Net Income/(Expenditure)		(7,716)	3,856
Other Recognised Gains and Losses			
Realised gain on Investments	12	115	63
Unrealised gain on Investments	12	767	947
		882	1,010
Net Movement in Funds		(6,834)	4,866
Balances brought forward 1 January		36,168	31,302
Balances carried forward 31 December		29,334	36,168

All of the above results are derived from continuing activities.

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

The deficit for the year for Companies Act purposes comprises the net incoming resources for the year plus realised gains on investments and was £7,601,000 (2006: £3,919,000 surplus).

The realised gain of £115,000 (note 12) would be reported as a gain of £2,343,000 at historical cost making the historical cost deficit for the year £5,373,000 (2006: £4,147,000).

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



Balance Sheet

at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed Assets			
Investment in Northern Rock plc	11	–	–
Tangible Fixed Assets	11	1,006	1,054
Investments under fund management	12	25,690	19,145
Programme-related investments	13	3,754	3,940
		30,450	24,139
Current Assets			
Debtors	14	75	16,762
Short-term deposits	15	24,197	24,913
Investments	16	–	6
Cash at bank and in hand		335	139
		24,607	41,820
Creditors: amounts falling due within one year	17	(17,874)	(20,560)
Net Current Assets		6,733	21,260
Total Assets less Current Liabilities		37,183	45,399
Creditors: amounts falling due after more than one year			
Grants authorised and not yet paid	18	(7,849)	(9,231)
Net Assets		29,334	36,168
Unrestricted Funds			
General Reserve		28,135	33,537
Revaluation Reserve		1,199	2,631
Income Funds	19	29,334	36,168

The notes on pages 15 to 26 form part of these financial statements.

The financial statements on pages 12 to 26 were approved by the Board of Trustees on 12 May 2008 and signed on its behalf by

Alastair Balls CB

Anthony Henfrey

Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Net cash (outflow)/inflow from operating activities	20	3,154	(1,608)
Returns on investment and servicing of finance			
Dividends on investment income		116	84
Interest on cash and short-term deposits		1,513	1,298
Interest on loans		20	20
		<hr/> 1,649	<hr/> 1,402
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(2)	(65)
Sales of tangible fixed assets		–	2
Purchase of fixed asset investments		–	500
(Increase)/Decrease in Loans		186	(980)
Purchase of Investments		(21,460)	(2,054)
Sale of Investments		15,953	1,755
		<hr/> (5,323)	<hr/> (842)
Net cash outflow from capital expenditure and financial investment			
Management of liquid resources			
Decrease/(Increase) in short-term deposits		716	1,070
Increase/(Decrease) in cash		<hr/> 196	<hr/> 22



Notes to the Financial Statements

for the year ended 31 December 2007

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 March 2005, the Companies Act 1985 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 2007 was eleven 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 main source of revenue in 2007 was Northern Rock plc which had entered into a Deed of Covenant with the Foundation.

e) Investment income and interest receivable

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

f) Resources expended

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

g) Grants

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

h) Overhead and support costs

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

i) Governance costs

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

j) Investments

- i) Investments under fund management are stated at market value at the balance sheet date. The SOFA includes net gains and losses arising on revaluations and disposals throughout the year.
- ii) Other investments include social investments in the nature of interest-free loans and other similar amounts to charitable organisations, and are recorded at cost less any provisions to reflect the non-recoverability of such amounts. The interest foregone on interest-free loans and other similar amounts is not treated as a donation to the recipient due to inherent difficulties in determining a valuation of the donation.

k) Taxation

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

l) Pension costs

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

m) Operating leases

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

n) Tangible fixed assets

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

Land and buildings	50 years
Computers and equipment	3 to 5 years
Fixtures and fittings	10 years

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

2. Deed of Covenant

	2007 £'000	2006 £'000
Covenant Receivable	14,803	31,337

Under normal circumstances, 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 plc 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 plc 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. Northern Rock plc have advised Northern Rock Foundation that there will be no covenant for the second half year of 2007.

3. Investment income

	2007 £'000	2006 £'000
Interest receivable on call accounts	702	306
Interest receivable on fixed-term deposits	609	744
Loan interest	20	20
Dividends receivable	303	325
	1,634	1,395



4. Other income

	2007 £'000	2006 £'000
Futurebuilders service agreement	35	35
Bank interest receivable	12	8
Other grants receivable	11	–
Other income	2	9
	60	52

5. Investment management costs

	2007 £'000	2006 £'000
Investment management fees	69	61

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

6. Charitable activities

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

	2007 £'000	2006 £'000
a) Grants payable	22,705	27,613
b) Support costs	1,232	1,172
Total Charitable Expenditure	23,937	28,785

a) Grants payable

	2007 £'000	2006 £'000
Grants authorised	19,997	27,107
Commissions authorised	1,233	5
Grants withdrawn or returned in current year	(141)	(258)
	21,089	26,854
Prior year grants returned	(484)	(389)
	20,605	26,465
Staff Matched Giving Scheme	1,866	946
Additional grants	234	202
	22,705	27,613

Details of grants payable across the different grant programmes is analysed on page 7 and a full listing of all grants awarded in 2007 can be seen in both the *Annual Review* and on the Foundation's website.

Additional Grants:

Under Northern Rock plc's Discretionary Fund the Trustees awarded 114 donations totalling £234,000.

b) Support costs

	2007	2006
	£'000	£'000
Direct costs	197	260
Allocated costs:		
– Salaries	854	770
– Other allocated costs	181	142
	1,232	1,172

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

7. Governance costs

	2007	2006
	£'000	£'000
Legal and professional	103	9
Auditors' remuneration		
– Audit services	16	10
– Non-audit services	–	–
Costs of Trustees' meetings	3	6
Allocated costs:		
– Salaries	76	51
– Other allocated costs	9	6
	207	82

The rise in governance costs is a direct result of measures taken by Trustees to protect the interests and reputation of the Foundation in the wake of the difficulties encountered by Northern Rock Plc during the last quarter of 2007. Governance issues have incurred additional direct costs in terms of legal and professional fees and allocated costs have increased to reflect additional staff time.

As at 31 December 2007, the Foundation had annual commitments under non-cancellable operating leases expiring within one year, of £Nil (2006: £Nil expiring within one year).



8. Total resources expended

	Grants payable £'000	Direct costs £'000	Salary allocation £'000	Overhead allocation £'000	Total 2007 £'000	Total 2006 £'000
Investment management fees	-	69	-	-	69	61
Grants payable	22,705	-	-	-	22,705	27,613
Support costs	-	197	854	181	1,232	1,172
Governance costs	-	122	76	9	207	82
Total resources expended	22,705	388	930	190	24,213	29,928

Staff costs

	2007 £'000	2006 £'000
Wages and salaries	779	688
Social security costs	79	65
Pension costs	72	68
	930	821

The number of employees whose emoluments as defined for taxation purposes amounted to over £60,000 in the year was as follows:

	2007 Number	2006 Number
£60,000-£70,000	1	1
£80,000-£90,000	-	-
£90,000-£100,000	1	1

The employees earning more than £60,000 both participated in the defined benefit pension scheme. Pension contributions totalled £25,000 (2006: £23,000) for those employees.

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

	2007 Number	2006 Number
Support staff	24	19
Governance	1	1

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

9. Trustees' remuneration

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

Out-of-pocket travel, meals and accommodation expenses totalling £1,000 (2006: £3,000) were reimbursed to three of the Trustees during the year.

10. Pension costs

Seconded employees 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 2007, the Foundation paid employer's contributions of 15.9% of basic pensionable earnings throughout the year (2006: 15.9%) 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% (2006: 5%). During 2007, the Foundation paid employer's contributions in respect of the contracted-in defined contribution

section of the Scheme at an average rate of 6% (2006: 6%). 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% (2006: 4.3%).

The total pensions charge to the Foundation's Statement of Financial Activities for 2007 in respect of employer's contributions was £72,000 (2006: £68,000).

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

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



11. Fixed assets

	Freehold land and buildings £'000	Fixtures and fittings £'000	Computers and other equipment £'000	Total £'000
Cost:				
At 1 January 2007	1,004	84	106	1,194
Additions	-	1	1	2
Disposals	-	-	-	-
At 31 December 2007	1,004	85	107	1,196
Accumulated Depreciation				
At 1 January 2007	80	28	32	140
Charge for the year	20	9	21	50
At 31 December 2007	100	37	53	190
Net book value at 31 December 2007	904	48	54	1,006
Net book value at 31 December 2006	924	56	74	1,054

Fixed assets – investment in Northern Rock plc

At 31 December 2007, the Northern Rock Foundation held 74,333,500 Northern Rock plc Foundation shares of 25p each. These shares carried no rights to dividends but ranked pari passu with the Ordinary shares in respect of other distributions and in the event of a winding up. These shares did not confer any rights in relation to attendance or voting at any general meeting of Northern Rock plc. These shares had no market value, as they could not be traded on the open market. The shares were converted into Ordinary shares of Northern Rock plc as a result of the temporary taking into public ownership 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 2007 no shares were bought back (2006: £Nil).

12. Fixed assets – investments under fund management

Barclays Wealth are appointed as fund managers. Their brief is 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.

	2007	2006
	£'000	£'000
Market value at 1 January	19,145	17,836
Cost of investments purchased	22,197	1,476
Proceeds of investments sold	(15,953)	(1,755)
Surplus on disposal during the year	115	63
Net movement in market values	773	947
(Decrease)/Increase in cash held	(587)	578
Market value at 31 December	25,690	19,145
Historical cost of investments at 31 December	24,491	16,513

Geographical analysis of investments under fund management:

	2007	2006
	total	total
	£'000	£'000
Sterling Fixed Interest	8,817	8,578
Index Linked Gilts	1,165	1,105
UK Equities	11,691	6,220
Overseas Equities	3,868	2,261
UK Commodities	–	245
Cash	149	736
Total	25,690	19,145

Following the appointment of new fund managers, exposure to equities is via the Aberdeen Charity Select Common Investment Funds.

The unrealised gain in the year of £767,000 (2006: £947,000), is made up of £773,000 (2006: £946,000) being the movement in net market value of invested funds, less £6,000 (2006: £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.



13. Programme-related investments

	2007	2006
	total	total
	£'000	£'000
North East Enterprise Bond	1,000	1,000
The International Centre for Life	680	810
Charity Bank	1,000	1,000
Loans to the voluntary sector (net)	1,074	1,130
	3,754	3,940

a) North East Enterprise Bond

During 2005, the Trustees agreed to invest up to £1 million by way of an interest-free loan, repayable in five years. Repayment is guaranteed by Northern Rock plc. The investment is aimed at addressing the North East's enterprise deficit.

b) The International Centre for Life

The Foundation entered into a loan agreement with the International Centre for Life. According to the terms of the loan, the principal, £1 million, will be repaid over seven years commencing in 2005. The Trustees agreed to apply a zero interest rate to this loan. The first three repayments were made as scheduled in 2005, 2006 and 2007.

c) Charity Bank

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

d) Loans to the voluntary sector

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

During 2007, one loan for £300,000 was approved (2006: eight loans for £1,130,000), no loans were repaid in full (2006: £NIL). During 2007, no loans have been identified by Charity Bank that were causing concern regarding recoverability so there have been no provisions made to reflect a reduction in the expected amount recoverable (2006: £50,000).

14. Debtors

	2007	2006
	£'000	£'000
Covenanted payment from Northern Rock plc	–	16,643
Trade debtors	–	10
Other debtors	1	56
Prepayments and accrued interest	74	53
	75	16,762

15. Investments held at Northern Rock plc

At 31 December 2007, £24,197,000 (2006: £24,913,000) was invested on behalf of the Foundation by Northern Rock plc's Treasury Function.

16. 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 2007 was £420 (2006: £5,890).

17. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Accruals	828	344
Loans pledged	–	1,100
Trade creditors	8	–
Grants authorised and not yet paid	17,038	19,116
	17,874	20,560

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

	2007 £'000	2006 £'000
Grants authorised and payable within 1–2 years	6,375	6,448
Grants authorised and payable within 3 years	1,474	2,063
Grants authorised and payable within 4 years	–	720
Grants authorised and payable within 5 years	–	–
	7,849	9,231

19. Summary of movements on income funds

	General reserve £'000	Revaluation reserve £'000	Total income funds £'000
Income funds at 1 January 2007	33,537	2,631	36,168
Incoming resources	18,742	(2,245)	16,497
Resources expended	(24,144)	(69)	(24,213)
Net investment gains	–	882	882
Income funds at 31 December 2007	28,135	1,199	29,334

Of the income funds of £29,334,000, £1,199,000 relates to the revaluation reserve, as a result of carrying assets on the balance sheet at a valuation above their original cost.



20. Cash flow

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

	2007	2006
	£'000	£'000
Net incoming/(outgoing) resources	(7,716)	3,856
(Increase)/Decrease in debtors	16,686	(6,677)
(Decrease)/Increase in creditors	(2,686)	(1,884)
(Increase)/Decrease in long-term creditors	(1,382)	4,460
Interest on cash and short-term deposits	(1,475)	(1,041)
Dividends	(303)	(342)
Interest received on loans	(20)	(20)
Depreciation	50	40
Net cash (outflow)/inflow from operating activities	3,154	(1,608)

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

	2007	2006
	£'000	£'000
Increase/(Decrease) in cash in the period	196	22
(Decrease)/Increase in short-term deposits	(716)	(1,070)
Change in net funds	(520)	(1,048)
Net funds at beginning of period	25,052	26,100
Net funds as at 31 December	24,532	25,052

c) Analysis of net funds

	1 January	Cash flow	31 December
	£'000	£'000	£'000
Cash at bank and in hand	139	196	335
Short-term deposits	24,913	(716)	24,197
	25,052	(520)	24,532

21. 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. Services received under the Service Agreement totalled £8,000 (2006: £8,000).

22. Post balance sheet events

On 22 February Northern Rock plc entered into a period of temporary public ownership. As part of this event the Foundation shares automatically converted into Ordinary shares and the covenant under which the Foundation had previously received 5% of Northern Rock plc's annual profits lapsed. However, the Chancellor of the Exchequer announced that as

part of the change the Foundation would receive a minimum of £15 million per year for each of 2008, 2009 and 2010 from Northern Rock plc. The newly appointed Executive Chairman of Northern Rock plc was also given the task of securing a viable long-term future for the Foundation irrespective of the future ownership or disposition of the company.



Registered Office:

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Newcastle upon Tyne NE3 4PL

Registered Charity:

Charity Commissioners'
Reference Number 1063906

Company Limited by Guarantee:

Registered Number 03416658

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