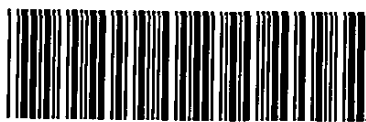


Northern Rock Financial Services Limited
Directors' report and financial statements
for the year ended 30 June 2010

Registered number 02325239

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Northern Rock Financial Services Limited
Directors' report and financial statements
for the year ended 30 June 2010
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Northern Rock Financial Services Limited

Directors and advisers

Directors

P M Hopkinson

P A McLelland

Company secretary

J Shipley

Registered office

Northern Rock House

Gosforth

Newcastle upon Tyne

NE3 4PL

Registered number

02325239

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

89 Sandyford Road

Newcastle upon Tyne

NE1 8HW

Northern Rock Financial Services Limited

Directors' report for the year ended 30 June 2010

The directors present their report and the audited financial statements of the company for the year ended 30 June 2010. This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Principal activities

The company was incorporated in England and Wales and is a private limited company domiciled in England. The principal activity of the company was to provide independent financial advice to its customers. The company has not traded in the current or previous financial year and as at the date of signing the financial statements the directors have not made any decisions regarding the future of the company.

Results

The results for the year are set out in the statement of comprehensive income on page 6. The company did not trade during the current or preceding year.

Post balance sheet events

Details of post balance sheet events are given in note 9 to the financial statements.

Directors

The directors who held office during the year and up to the date of signing the financial statements were as follows:

D A Jones (Appointed 27 November 2009 and resigned 21 April 2010)

J Shipley (Resigned 27 November 2009)

Y Hall (Appointed 3 August 2010 and resigned 1 March 2011)

C T Greener (Resigned 1 November 2010)

P M Hopkinson (Appointed 1 November 2010)

P A McLelland (Appointed 1 March 2011)

Financial risk management

Financial risk is managed at group level and is discussed in the Northern Rock (Asset Management) plc group financial statements. Details of financial risk management within Northern Rock Financial Services Limited are given in note 8.

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 company will continue in business.

Northern Rock Financial Services Limited

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

In the case of each person who was a director at the date of approval of this report

- (1) so far as every director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) each director has taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the board



J Shipley
Company secretary
18 March 2011

Northern Rock Financial Services Limited

Independent auditors' report to the members of Northern Rock Financial Services Limited

We have audited the financial statements of Northern Rock Financial Services Limited for the year ended 30 June 2010 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement, the statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2010,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Northern Rock Financial Services Limited

Matters on which we are required to report by exception

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

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



Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
18 March 2011

Northern Rock Financial Services Limited

Statement of comprehensive income for the year ended 30 June 2010

The company has not traded during the current or previous financial year and has received no income and incurred no expenditure. Consequently the company made neither a profit nor a loss for the years ended 30 June 2010 and 2009.

Northern Rock Financial Services Limited

Balance sheet as at 30 June 2010

	Note	2010 £	2009 £
ASSETS			
Current assets			
Other receivables	3	1,968,316	1,968,316
Total assets		1,968,316	1,968,316
Equity			
Ordinary shares	4	150,000	150,000
Retained earnings	5	1,818,316	1,818,316
Total equity		1,968,316	1,968,316

The financial statements on pages 6 to 14 were approved by the board of directors on 18 March 2011 and were signed on its behalf by



P M Hopkinson
Director

Northern Rock Financial Services Limited is registered in England and Wales under company number 02325239

Northern Rock Financial Services Limited

Statement of changes in equity for the year ended 30 June 2010

There has been no movement in shareholders equity in years ended 30 June 2010 and 2009. Consequently no statement of changes in equity has been presented.

Northern Rock Financial Services Limited

Cash flow statement for the year ended 30 June 2010

No transactions have occurred during the current or preceding year Accordingly no cash flow statement has been presented

Northern Rock Financial Services Limited

Statement of accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. Accounting policies have been applied consistently to all the periods presented, unless otherwise stated.

Accounting convention

The financial statements of Northern Rock Financial Services Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the going concern basis and under the historical cost convention. The company is a wholly owned subsidiary of Northern Rock (Asset Management) plc (NRAM). NRAM is dependent upon financing facilities provided by HM Treasury, which are repayable on demand. HM Treasury has confirmed to the directors of NRAM its intention to provide funding until at least 31 December 2012.

A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the period, if applicable.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. No such estimates or assumptions have been made in the preparation of the financial statements of Northern Rock Financial Services Limited.

Other receivables

Other receivables are measured at amortised cost.

Share capital

Ordinary shares are classified as equity.

New standards, amendments and interpretations

The following new standards, amendments to standards or interpretations that are relevant to the company are mandatory for the first time for financial years during 2009 and have been endorsed for adoption by the EU. These are applicable from 1 July 2009 unless otherwise stated.

- IAS 1 (revised), 'Presentation of financial statements'. This is effective for annual periods beginning on or after 1 January 2009.
- Amendment to IFRS 7, 'Financial instruments: Disclosures on fair value hierarchy'. This is effective for annual periods beginning on or after 1 January 2009.
- Improvements to IFRSs (2008). This is effective for annual periods beginning on or after 1 January 2009.

The following new standards, amendments to standards or interpretations are mandatory for the first time for financial years during 2009, have been endorsed for adoption by the EU, but have no material financial impact on the company. These are applicable from 1 July 2009 unless otherwise stated.

- IFRIC 18, 'Transfer of assets from customers'.
- IAS 27 (revised), 'Consolidated and separate financial statements'.
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on 'Eligible hedged items'.
- IFRS 1 (revised), 'First-time adoption'.
- IFRS 3 (revised), 'Business combinations'.

Northern Rock Financial Services Limited

- IFRIC 17, 'Distribution of non-cash assets to owners'
- Amendment to IAS 32, 'Financial instruments Presentation' and IAS 1 'Presentation of financial statements Puttable financial instruments and obligations arising on liquidation' This is effective for annual periods beginning on or after 1 January 2009
- IFRIC 15, 'Agreements for construction of real estates' This is effective for annual periods beginning on or after 1 January 2009
- IAS 23 (revised), 'Borrowing costs' This is effective for annual periods beginning on or after 1 January 2009
- Amendment to IFRS 2, 'Share-based payments' on 'Vesting conditions and cancellations' This is effective for annual periods beginning on or after 1 January 2009
- IFRS 8, 'Operating segments' This is effective for annual periods beginning on or after 1 January 2009
- Amendments to IFRS 1, 'First time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate' This is effective for annual periods beginning on or after 1 January 2009

The company has not early adopted any standards or interpretations

The following new standards, amendments to standards or interpretations that are relevant to the company have been issued and endorsed by the EU but are not effective for financial years beginning 1 July 2009

- IAS 24 (revised), 'Related party disclosures'
- Improvements to IFRSs (2009)

The following new standards, amendments to standards or interpretations that are relevant to the company have been issued but are not effective for financial years beginning 1 July 2009 and have not been endorsed by the EU

- Annual Improvements 2010
- IFRS 9, 'Financial instruments'
- Amendments to IFRS 7 on derecognition

The following new standards, amendments to standards or interpretations are not effective for financial years beginning 1 July 2009 and have been endorsed by the EU, but have no material impact on the company

- Amendment to IFRIC 14, 'Prepayments of a minimum funding requirement'
- Amendment to IAS 32, 'Financial instruments Presentation on classification of rights issues'
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'
- Amendments to IFRS 1, 'First time adoption' on 'Additional exemptions'
- Amendment to IFRS 2, 'Share-based payments' on 'Group cash-settled share-based payment transactions'
- Amendment to IFRS 1, 'First time adoption' on 'Financial instrument disclosures'

Northern Rock Financial Services Limited

Notes to the financial statements for the year ended 30 June 2010

1 Auditors' remuneration

The audit fee of £870 (2009 £1,350) has been included in the overall audit fee for the Northern Rock (Asset Management) group, which has been paid by Northern Rock (Asset Management) plc. Details of the overall fee can be found in the Northern Rock (Asset Management) plc financial statements.

2 Directors' emoluments and employee information

None of the directors received any emoluments in respect of their services to the company during the year or in the previous year.

The company has no employees other than the directors in the current year or previous year.

3 Other receivables

	2010 £	2009 £
Amounts owed by parent undertaking	1,968,316	1,968,316

Amounts owed by parent undertaking are unsecured, do not carry any interest and are payable on demand, but are not expected to be fully paid within the next 12 months.

4 Ordinary shares

	2010 £	2009 £
Authorised		
500,000 ordinary shares of £1 each	500,000	500,000
Allotted and fully paid		
150,000 ordinary shares of £1 each	150,000	150,000

There is only one class of ordinary share which carries no right to fixed income.

Northern Rock Financial Services Limited

5 Retained earnings

	2010	2009
	£	£
Balance at 1 July and 30 June	1,818,316	1,818,316

6 Ultimate parent undertaking

All shares in Northern Rock (Asset Management) plc were transferred to the Treasury Solicitor as nominee for HM Treasury on 22 February 2008 as a result of The Northern Rock Transfer Order 2008. On 1 October 2010 all shares in Northern Rock (Asset Management) plc were acquired via a share-for-share exchange by UK Asset Resolution Limited, a private limited company incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury. As such the company considers Her Majesty's Government to be the ultimate controlling party.

Northern Rock (Asset Management) plc is the parent company of the smallest group to consolidate the company's financial statements and UK Asset Resolution Limited is the parent company of the largest group to consolidate the company's financial statements. Copies of the group financial statements can be obtained from Northern Rock (Asset Management) plc, Northern Rock House, Gosforth, Newcastle upon Tyne, NE3 4PL.

7 Related party transactions

	2010
	£
Amounts owed by Northern Rock (Asset Management) plc:	
Loans outstanding at 1 July 2009 and at 30 June 2010	1,968,316

	2009
	£
Amounts owed by Northern Rock (Asset Management) plc:	
Loans outstanding at 1 July 2008 and at 30 June 2009	1,968,316

8 Financial risk management

	Financial assets
	Loans and receivables
	£
Other receivables as at 1 July 2009 and at 30 June 2010	1,968,316

Northern Rock Financial Services Limited

8 Financial risk management (continued)

The carrying value of the financial assets above is considered to be a reasonable approximation of the fair value due to the short term maturity dates of these items

Market risk

Market risk is the risk that changes in the level of interest rates, the rate of exchange between currencies or the price of securities or other financial contracts, including derivatives, will have an adverse impact on the results and operations or financial condition of the company

All receivables within Northern Rock Financial Services Limited comprise amounts owed by the parent undertaking. These loans do not carry any interest and are therefore not subject to market risk

Credit risk

The credit risk on amounts owed by the parent undertaking is mitigated by the ongoing financial support provided by HM Treasury. HM Treasury has confirmed that it is its intention to continue to fund Northern Rock (Asset Management) plc so as to maintain the company as a going concern and enable it to meet its debts as and when they fall due until 31 December 2012

Other receivables as at 30 June 2010 are neither past due nor impaired. The maximum credit exposure is the carrying value of the asset

Liquidity risk

Liquidity risk represents the risk of being unable to pay liabilities as they fall due and arises from the mismatch in cash flows generated from current and expected assets, liabilities and derivatives. There are no amounts payable as at 30 June 2010

Capital management

Capital is managed at group level. See Northern Rock (Asset Management) plc financial statements for full details

9 Events after the balance sheet date

HM Treasury has confirmed that it is its intention to continue to fund Northern Rock (Asset Management) plc so as to maintain the company as a going concern and enable it to meet its debt as and when they fall due until 31 December 2012. It has also committed to convert up to £1.6 billion of the Government loan to meet regulatory capital requirements if so required