NORTHERN ROCK (ASSET MANAGEMENT) PLC
(FORMERLY NORTHERN ROCK PLC)

ANNUAL RESULTS
YEAR ENDED 31 DECEMBER 2009

northern rock

NORTHERN ROCK (ASSET MANAGEMENT) PLC ANNUAL RESULTS

10 March 2010

OVERVIEW

The legal and capital restructure of the former Northern Rock completed on 1 January 2010. This resulted in the creation of two separate companies Northern Rock (Asset Management) plc, the existing Company renamed, and the new bank, Northern Rock plc. This follows approval for State aid which was granted by the European Commission on 28 October 2009.

Northern Rock (Asset Management) plc (the Company) today issued its Annual Results for the year ended 31 December 2009.

HIGHLIGHTS

Earnings

- Statutory loss before tax reduced to £257.5 million in 2009, compared with a loss of £1,355.9 million in 2008, despite incurring a loan loss impairment charge of £1,044.8 million (2008 £894.4 million)
- Improved net interest income and a reduced loan impairment charge were the main drivers behind the Company recording a statutory profit of £466.7 million in the second half of 2009, compared to a loss of £724.2 million in the first half of 2009
- Total income in the year improved to £1,107.0 million (2008 £254.4 million), including the State aid clawback of £200.0 million
- Total costs reduced by 32%, to £295.9 million in 2009 (2008 £433.3 million)
- Underlying loss before tax was £383.3 million, compared with an underlying loss before tax of £1,288.0 million in 2008

Lending

- Gross residential lending of £4.2 billion in 2009, compared with £2.9 billion in 2008 reflecting the Company's revised strategy to increase mortgage lending in support of mortgage market capacity
- Selective mortgage retention programme successfully launched in June 2009
- All lending was responsible and carefully underwritten on commercial terms
- As a result of the legal and capital restructure, the Company ceased to offer new mortgage lending and transferred £10.3 billion of residential loans to the new bank, Northern Rock plc, on 1 January 2010

Retail Funding

- Retail deposits of £19.5 billion at 31 December 2009, compared with £19.6 billion at 31 December 2008
- The small net outflow reflects a more normalised customer view of the savings market and Northern Rock's place within the market, as well as the Company's ongoing compliance with its self-imposed competitive framework
- The entire retail savings book was transferred to the new bank, Northern Rock plc on 1 January 2010, as a result of the legal and capital restructure

Government Loan

- Net borrowings provided by the Government were £10.7 billion, compared with £8.9 billion at the end of December 2008, in line with revised plan and reflecting the cessation of the active redemption programme and the increase in new lending
- This represents gross amounts outstanding of £14.3 billion, less balances held for liquidity purposes at the Bank of England of £3.6 billion
- The Government loan increased by £8.5 billion, to £22.8 billion, upon completion of the legal and capital restructure

Credit Quality

- The Company's mortgage arrears rate rose in the first half of 2009 before stabilising in the final quarter of the year
- Residential mortgage accounts over three months in arrears, including Together loans, are 4.28% at 31 December 2009, compared with 2.92% at 31 December 2008
- Excluding Together, residential mortgage accounts over three months in arrears are 3.10% at 31 December 2009, compared with 2.25% at 31 December 2008

Assisting Customers in Difficulty

- Northern Rock (Asset Management) plc has continued to enhance its debt management function in order to work with customers who are experiencing payment difficulties
- This includes involvement in the development of Government schemes and active engagement with the debt advice sector
- The Company's substantial debt management investment programme has allowed more than 1,700 customers to remain in their homes as a result of its innovative rescue solutions
- The number of properties in possession has fallen to 2,061, compared with 3,620 at 31 December 2008
- This reduction reflects the actions taken to assist customers in difficulty to stay in their homes and increased sales of repossessed properties, at the best possible price, in the best interests of both customers and the Company

Capital

- The Company remains authorised and regulated by the Financial Services Authority
- However, following the completion of the legal and capital restructure, it is now a regulated mortgage company rather than a bank and is therefore subject to significantly lower capital requirements than previously
- The Government has committed to convert up to £1.6 billion of the Government loan, as additional capital support to the Company, to ensure it can continue to meet its regulatory capital requirements, if so required

Remuneration

- During 2009, the Company agreed an incentive scheme with HMT for all colleagues, which was aligned to corporate performance
- Reflecting achievement against the agreed objectives, the Company will make payments under this scheme totalling £14.9 million, including £1.5 million in respect of the UK Bank Payroll Tax
- Gary Hoffman, Chief Executive, has waived his entitlement to a bonus under the scheme for 2009
- A long term incentive scheme is being designed for Mr Hoffman that will be aligned to the achievement of a number of performance objectives for both Northern Rock plc and Northern Rock (Asset Management) plc. This will cover his tenure as Chief Executive and will only pay out upon a return to profitability, or upon the return of Northern Rock plc to private ownership
- The 2009 bonus awards for other members of senior management will be paid in three equal annual instalments, commencing in March 2010, and will be subject to clawback

Northern Rock Foundation

- A donation to The Northern Rock Foundation of £15.0 million was paid in 2009, with total payments made since 1997 of £220.0 million

CHIEF EXECUTIVE'S STATEMENT

I am pleased to report that the Company made good progress during 2009 against our objective of delivering value to the UK taxpayer while providing a high level of service to customers.

Throughout 2009, the Company worked closely with the Government and the Financial Services Authority (FSA) in preparation for the legal and capital restructure which was core to our business plan. This included supporting the Government in the submission of a revised State aid application to the European Commission (EC), as well as working with the FSA to demonstrate the robustness of our future business plan.

Business Plan

In February 2009, we announced that we had agreed a revised business plan with the Government. The key features of the revised plan were:

- Slowing down the rate of mortgage redemptions
- Offering up to £14 billion of new mortgage lending in 2009/2010
- Changing the repayment profile of the Government loan to reflect the new mortgage lending and slower redemptions
- Implementing a legal and capital restructure of the Company, designed to maximise value for the taxpayer and facilitate the new mortgage lending.

In October 2009, the EC announced that it had approved the Government's State aid package for Northern Rock. This enabled the plan to restructure the business to proceed, creating two separate companies from 1 January 2010.

- **Northern Rock (Asset Management) plc,** the existing company which holds approximately £50 billion of residential mortgages and unsecured loans of £3.9 billion. Northern Rock (Asset Management) plc holds the Government loan, together with Northern Rock's non-deposit wholesale and secured funding instruments. Northern Rock (Asset Management) plc does not hold any retail deposits and does not offer any new mortgage lending.

- **Northern Rock plc,** a new bank authorised by the FSA as a deposit taker and will undertake new lending. Northern Rock plc holds retail deposits, some wholesale deposits and a mortgage book of approximately £10 billion.

The successful achievement of the restructure marked a major milestone for the Company and is a capital efficient solution aimed at serving taxpayers' best interests. Furthermore, it has been completed without disruption to customers.

Financial and Operational Performance

The Company's financial performance improved through 2009 on both an underlying and statutory basis, with the Company reporting a profit of £466.7 million in the second half of the year. The reduced full year loss of £257.5 million reflected higher net interest income, good control of costs and impairment charges lower than forecast, as well as a rebate of certain charges received upon approval of State aid in October.

Helping Customers in Difficulty

The past financial year has been a difficult one for some of our customers, who have been impacted by the economic conditions.

With this in mind we have put in place a range of innovative rescue solutions designed to provide practical help and support for customers who find themselves in financial difficulty. To date, we have successfully assisted more than 1,700 customers facing financial difficulty, many with families, to stay in their homes.

The Company has invested significantly in its debt management function, more than doubling the resources available with the primary focus of increasing the level of customer contact. We actively engaged in the design and improvement of Government rescue schemes in early 2009 and were one of the first lenders to operate the Government's Homeowner Mortgage Support Scheme.

This complements our specific commitment not to take possession of a property until at least six months after the first arrears event. On average, we work with customers for a significantly longer period of time than this. In all cases, repossession remains a last resort.

As a result of these actions, the number of properties in possession has fallen from over 4,000 at its peak to 2,061 at the end of 2009.

The number of residential customers in arrears increased during 2009, reflecting broader economic conditions and the impact these have had on the Company's mortgage book. Arrears of more than three months stood at 4.28% at 31 December 2009.

Arrears stabilised during the last quarter of 2009, reflecting the investment we have made in our debt management capabilities and function, along with greater affordability of mortgages as a result of low interest rates.

Supporting Mortgage Market Capacity

In order to support capacity in the UK mortgage market, gross mortgage lending accelerated during the second half of the year with the Company achieving its 2009 lending target of £4 billion.

The quality of new lending remained high, with an average loan-to-value (LTV) ratio of new lending at 56%. All lending during the year has been done on a responsible basis and was carefully underwritten with affordability for customers a key consideration.

Northern Rock in the Community

Northern Rock has been a substantial contributor to the wider community over the years, both through The Northern Rock Foundation and direct activity by colleagues.

In line with the commitment made when the Company was taken into public ownership, it has paid £15 million to The Northern Rock Foundation during 2009. Such donations enable the Foundation to support community and charitable causes mainly, but not exclusively, in the North East of England and Cumbria. I am pleased to report that a further £15 million will be donated to The Northern Rock Foundation in 2010.

During 2009, the Company worked closely with a number of debt advice agencies as well as supporting colleagues in a wide range of broader community activities.

Going forward, Northern Rock's community strategy is being refocused towards being known for helping communities in financial difficulty, utilising the skills inherent within the organisation. In 2010 and beyond, Northern Rock will actively encourage its colleagues to participate in community activities in support of this objective. We are currently engaging with The Northern Rock Foundation and more widely to establish the precise nature of this programme.

Outlook

The outlook for the UK economy remains uncertain. After a contraction in the economy during 2009, with increases in unemployment and house price deflation, conditions appear to have stabilised, but economic recovery is still expected to be relatively weak.

The current low level of the Bank Base Rate means that loan repayments remain affordable for those in employment. The Company's future performance is likely to be influenced by the timing and extent of increases in Bank Base Rate.

Unemployment and house prices will remain the key drivers of the Company's loan impairments, but there have been signs of an improvement in both of these indicators during the last few months of 2009, resulting in a reduced loan impairment charge in the second half of the year. Loan loss impairment charges are expected to remain high during 2010, relative to historic norms, but below the level recorded in 2009.

It is over two years since Northern Rock entered public ownership. During that time the Company has made good progress in pursuit of its objectives that include repayment of State aid, delivering value for taxpayers and ultimately a return to private ownership. We are looking forward, not back, and my colleagues across the business remain committed to delivering a high standard of service for all of our customers. We are on the right trajectory and I am confident that, with the current strong management team in place, we are well positioned to deliver against our objectives in 2010.

Gary Hoffman
Chief Executive
10 March 2010

OPERATIONAL AND FINANCIAL PERFORMANCE

Introduction / Description of Business

Northern Rock (Asset Management) plc (the Company) changed its name from Northern Rock plc on 31 December 2009 as a result of the legal and capital restructure of the former Northern Rock into two companies. Following the restructure, the Company holds a book of £49.7 billion of residential mortgages, as well as £3.9 billion of personal unsecured loans. Following approval for State aid granted by the European Commission (the EC), the Company ceased to offer new lending at the end of 2009. As a result of the restructure the Company also transferred its entire book of retail savings, of £19.5 billion, to the new bank, Northern Rock plc, and no longer offers any retail savings products.

Loans to Customers

An analysis of lending and redemptions by portfolio is set out in the following table:

	Residential £m	Commercial £m	Unsecured £m	Total £m
2009 Full Year				
Total lending	4,215	-	-	4,215
Redemptions	(10,518)	(2)	(1,300)	(11,820)
Net	(6,303)	(2)	(1,300)	(7,605)
Closing balances	60,068	288	3,912	64,268
2008 Full Year				
Total lending	2,925	2	95	3,022
Redemptions	(26,571)	(24)	(1,830)	(28,425)
Net	(23,645)	(22)	(1,735)	(25,403)
Closing balances	66,700	301	5,298	72,299

Note: Lending flows represent cash flows excluding fair value adjustments. Closing balances are stated including fair value adjustments. Redemptions and net movements include asset disposals where appropriate.

Residential Lending

Northern Rock has maintained a presence in new mortgage lending markets throughout the period of public ownership, and increased the rate of new lending during the second half of 2009, reflecting its revised strategy. During 2009, the Company's total residential lending was £4.2 billion, which included gross new residential lending of £3.1 billion and £1.1 billion of retention lending. The Company reintroduced its policy of offering retention products to eligible existing customers as part of its revised strategy to support mortgage market capacity during 2009. All lending was made on commercial terms, in taxpayers best interests with affordability for customers a key consideration.

The following is an analysis of the secured residential mortgage book at the relevant date:

	2009	**2008**
Number of accounts (000s)	**550**	**591**
Product type (%)		
Standard	63	64
Together	30	29
Buy to Let	7	7
Geographic spread (%)		
North	17	16
Scotland/Northern Ireland	10	10
Midlands	27	27
South	46	47
Average indexed loan to value (%)	71	73

The average indexed Loan to Value (LTV) of the Company's mortgage book at the end of 2009 decreased to 71% (31 December 2008 - 73%) reflecting the slight improvement in house prices seen over the course of the year. The average LTV of new lending in 2009 was 56% (2008 - 67%) reflecting the Company's appetite for high quality new lending. The Company's loan book is geographically spread across the UK in line with the demographics of the population.

The share of Together loans as a proportion of the residential book has increased to 30% at 31 December 2009 (31 December 2008 - 29%). While the Company no longer offers new Together products, Together customers on average have a higher LTV and, therefore, in current market conditions, can find it more challenging to move their mortgage to another lender.

Northern Rock (Asset Management) plc ceased to offer new lending products from 1 January 2010. On 1 January 2010, £10.3 billion of residential loans were transferred to the new bank, Northern Rock plc, under the terms of the Northern Rock Transfer Order 2009.

Unsecured

The personal unsecured credit portfolios comprise the unsecured element of Together lending and standalone unsecured loans not linked to a residential mortgage. The Company no longer offers new unsecured lending products and as a consequence, these unsecured loan portfolios will run-off over time.

Balances of Together unsecured loans reduced to £2.5 billion at 31 December 2009, representing 63.9% of total unsecured loan balances (31 December 2008 - £2.7 billion, 51.3%). At 31 December 2009, standalone unsecured balances were £1.4 billion and represented 36.1% (31 December 2008 - £2.6 billion, 48.7%) of total unsecured loan balances.

Commercial

Northern Rock (Asset Management) plc retains a small commercial loan portfolio which totalled £0.3 billion at 31 December 2009 (31 December 2008 - £0.3 billion). The Company no longer offers new commercial loans and the book will continue to run-off over time.

Credit Quality and Loan Loss Impairment

Arrears

The arrears position of each of our main personal lending portfolios, based upon numbers of accounts over three months in arrears, is set out in the table below:

	CML residential average	Northern Rock residential	Non-Together residential	Together secured residential	Together unsecured	Standalone unsecured
31 December 2009	2.38%	4.28%	3.10%	6.93%	6.09%	3.63%
30 June 2009	2.40%	4.09%[1]	3.02%[1]	6.47%	5.46%	2.98%
31 December 2008	1.88%	2.92%	2.25%	4.53%	3.90%	2.87%

Source: Northern Rock and Council of Mortgage Lenders (CML)

Note 1: Restated to reflect a revision to the basis of calculation of the CML industry average confirmed during 2009

Residential arrears cases and arrears as a percentage of the residential loan book are as follows:

	31 December 2009		31 December 2008	
	Cases	**%**	**Cases**	**%**
Over 3 - 6 months	8,892	1.68	10,264	1.74
Over 6 - 12 months	8,521	1.62	6,259	1.06
Over 12 months	5,151	0.98	741	0.12
Total	22,564	4.28	17,264	2.92

The adverse economic background has led to an increase in defaults across the sector. The Company's arrears increased during 2009 reflecting the external economic background as well as the nature of the Company's portfolio of mortgage loans. The rate of increase in arrears slowed during the third quarter of 2009 and has now stabilised, reflecting the significant investment in the Company's debt management capabilities as well as improved affordability levels as a result of low interest rates.

Arrears over 3 months increased to 4.28% at the end of December 2009, compared with 4.09% at the end of June 2009 and 2.92% at the end of 2008. The increase in arrears over 12 months reflects the Company's policy of forbearance wherever possible, reflecting its revised approach to debt management, including repossession being a last resort. Within this total residential book number, Together arrears increased to 6.93% (31 December 2008 - 4.53%), while non-Together arrears increased to 3.10% (31 December 2008 - 2.25%).

£10.3 billion of residential loans were transferred to the new bank, Northern Rock plc on 1 January 2010. Following this transfer, residential arrears over 3 months were 5.32% on 1 January 2010.

In the unsecured loan books, Together unsecured arrears rose to 6.09% at 31 December 2009 (31 December 2008 - 3.90%). Standalone unsecured arrears on a reported basis increased to 3.63% (31 December 2008 - 2.87%). Within the standalone unsecured portfolio there are a number of loans where the Company has agreed to a reduced payment compared to the original contractual payment in an attempt to alleviate payment difficulties for the customer. If the customer maintains their payments in line with the agreed revised amount they are not considered to be in arrears and are not included within the reported figures. If arrears were to be restated to compare against the original contractual amount then standalone unsecured arrears would be 9.44% (31 December 2008 - 7.26%).

Arrears over 3 months on commercial loans, including commercial buy to let loans, were 1.60% at 31 December 2009 (31 December 2008 - 1.70%).

The stock of unsold repossessed properties has halved from its peak in 2008 and was 2,061 at 31 December 2009, compared with 3,620 at the end of 2008.

Loan Loss Impairment
Loan loss impairment balances and coverage at the year end are set out in the following table:

	Residential	Commercial	Unsecured	Total
2009				
Impairment provisions, £m	596.1	12.5	564.3	1,172.9
% of closing balances	0.98%	4.27%	12.60%	1.79%
2008				
Impairment provisions, £m	378.3	7.8	483.6	869.7
% of closing balances	0.56%	2.52%	8.36%	1.19%

The loan loss impairment charge on retail customer loans was £1,044.8 million in 2009 (2008 - £894.4 million), driven by increasing arrears, rising unemployment and falling house prices. The loan loss impairment charge started to reduce in the second half of 2009, reflecting the improving economic trends notably the stabilisation in house prices, but is expected to remain above historic norms for the foreseeable future.

Treasury Investments

Below is an analysis of treasury investments at 31 December 2009:

	Nominal Value	Carrying Value	Impairment (charge)/credit in year	Share of portfolio
	£m	£m	£m	%
Deposits with Bank of England	7,436.7	7,436.7	-	52.3
Loans and advances to banks	3,702.4	3,702.4	-	26.0
Unsecured investment loans	691.7	358.3	(22.9)	2.5
Reclassified available for sale securities	3,280.9	2,561.0	29.1	18.0
Available for sale securities	322.2	168.5	(5.5)	1.2
Held at fair value through the income statement	26.7	-	(10.7)	-
Total	15,460.6	14,226.9	(10.0)	100

Loans and advances to banks are cash deposits the Company has placed with other financial institutions and are carried at amortised cost, subject to a test for impairment. No impairments have been made in 2009.

Unsecured investment loans include holdings of structured investment vehicles (SIVs) and local authority loans. Unsecured investment loans are carried at cost and are subject to a test for impairment. An impairment charge of £22.9 million has been made in 2009 in relation to unsecured investment loans.

Reclassified available for sale (AFS) securities include illiquid Floating Rate Notes and asset backed investments. These investments have been assessed for impairment on a case by case basis, resulting in a credit of £29.1 million in 2009 reflecting improved market conditions.

The remaining AFS investments include collateralised debt obligations (CDOs), Government bonds, certificates of deposit and certain structured investments. An impairment charge of £5.5 million was made in 2009. In addition, a further £6.8 million was incurred as loss on disposal of AFS investments.

The value of assets held at fair value through the income statement has reduced to nil following an impairment charge of £10.7 million in 2009.

Funding

Northern Rock (Asset Management) plc's funding in 2009 was provided from five sources – in addition to its loan facilities from HM Treasury, the Company continued to be funded by wholesale funding, securitisation, covered bonds and retail deposits.

Flows of each funding channel and closing balances are shown in the following table:

	Retail	Wholesale	Securitisation	Covered Bonds	Government
	£m	£m	£m	£m	£m
2009 Full Year					
Net flow	(85)	(1,527)	(5,873)	(1,341)	1,864
Closing balances	19,478	10,457	28,802	9,866	10,725
2008 Full Year					
Net flow	9,044	(1,480)	(12,211)	-	(18,069)
Closing balances	19,623	12,924	37,987	12,550	8,861

Note: Net flow represents net cash flows excluding fair value adjustments. Closing balances are stated including fair value adjustments primarily related to exchange rate fluctuations. Such fluctuations are protected by cross-currency swaps. The Government loan balance is stated net of liquidity deposits held with the Bank of England, excluding deposits relating to swap collateral.

Retail

Retail funding comprised a full year net outflow of funds of £0.1 billion, compared to a net inflow in 2008 of £9.0 billion.

Closing retail balances comprised:

	2009 £m	2008 £m
Branch accounts	4,461.8	4,312.8
Postal accounts	9,106.0	7,495.9
Internet accounts	3,774.2	5,397.7
Offshore accounts	1,831.9	2,023.2
Other accounts	304.3	393.2
Total retail balances	19,478.2	19,622.8

Retail funding balances were broadly stable in 2009, reflecting the Company's adherence to its self imposed competitive framework. The framework included a set of principles and commitments to ensure that the Company did not take unfair advantage of Government support while in receipt of State aid. This included a commitment to restrict the Company's share of retail deposits to no more than 1.5% in the UK and 0.8% in Ireland. At the end of 2009, the Company's share of UK retail deposits was 1.42% and share of Ireland deposits was 0.57%.

As a result of the legal and capital restructure, the entire retail deposit book was transferred to the new bank, Northern Rock plc on 1 January 2010.

Wholesale

Reported wholesale funding balances decreased from £12.9 billion to £10.5 billion during 2009. Wholesale funding balances included £3.8 billion of collateral placed with the Company in respect of interest and foreign exchange swaps (31 December 2008 - £2.6 billion). Excluding this collateral, wholesale balances have reduced reflecting contractual maturities.

On 8 December 2009, HM Treasury announced replacement guarantee arrangements to safeguard certain wholesale liabilities of Northern Rock (Asset Management) plc following the legal and capital restructure. Full details of these revised guarantees, which took effect from 1 January 2010, can be found on the HM Treasury website at www.hm-treasury.gov.uk.

As a result of the legal and capital restructure, £1.4 billion of wholesale deposits were transferred to the new bank, Northern Rock plc on 1 January 2010.

Securitisation

Securitisation is the process whereby the Company, through the Granite programme, has previously raised wholesale funding secured on a segregated pool of mortgage assets. These assets are held in special purpose entities (SPEs) set up for this purpose, which are fully consolidated in the Company's financial statements. The Company retains an economic interest in the SPEs through a combination of subordinated loans and profit retained in the SPEs.

No new securitisation issues were completed during 2009.

Granite remained in pass-through during 2009. Under pass-through, holders of Granite securities receive principal repayments based on principal received on the underlying mortgage assets within Granite, rather than receiving scheduled repayments. The Company, as a beneficiary of the Granite mortgages trust, will not receive any distributions of principal in respect of the mortgage loans that have been securitised and are held in the Granite mortgages trust, until holders of Granite securities have been repaid in full.

At 31 December 2009, securitised notes in the Group balance sheet amounted to £28.8 billion (31 December 2008 - £38.0 billion). Balances of securitised funding at the end of 2009 are affected by foreign currency movements, which increase both the reported funding balance and the value of the associated derivative financial instruments which hedge against these rate movements. Excluding these fair value amounts, securitised note balances were £24.4 billion at 31 December 2009 (31 December 2008 - £30.7 billion).

Covered Bonds

Covered bonds are secured by a pool of ring-fenced residential mortgages. No additional funds were raised through the covered bond programme in 2009.

At 31 December 2009, covered bonds in the Group balance sheet amounted to £9.9 billion (31 December 2008 - £12.6 billion). Balances of covered bonds at the end of 2009 are affected by foreign currency movements, which increase both the reported funding balance and the value of the associated derivative financial instruments which hedge against these rate movements. Excluding these fair value amounts, covered bonds balances were £7.3 billion at 31 December 2009 (31 December 2008 - £8.5 billion).

Government Loan

Borrowings provided by HM Treasury under the liquidity facility amounted to £14.3 billion (31 December 2009 - £15.6 billion).

	31 December 2009 £bn	31 December 2008 £bn
Amount due to Government	14.3	15.6
Liquidity deposit accounts with Bank of England	(3.6)	(6.7)
	10.7	8.9

At the end of 2009, the net amount due to Government, after deducting liquidity deposits held with the Bank of England (excluding deposits relating to swap collateral), was £10.7 billion. The gross loan balance reduced by £1.3 billion during 2009 reflecting the revised strategy to support mortgage market capacity, through a combination of increased mortgage lending and lower mortgage redemptions.

The Government loan increased by £8.5 billion to £22.8 billion on completion of the legal and capital restructure. This allowed additional cash resources to be provided by the Company to Northern Rock plc in connection with the transfer of its deposit liabilities to the new bank. This will enable Northern Rock plc to continue to increase mortgage lending, supporting mortgage market capacity in a time of constrained market competition.

The cost of the Government net funding and HM Treasury guarantees has been revised following approval for State aid by the EC in October 2009. This revision was back dated to 1 April 2008, resulting in a rebate of £472.4 million, of which £200.0 million related to 2008. Of the £472.4 million, £116.0 million was charged and rebated during the second half of 2009, and therefore the resultant reversal in the second half of 2009 amounts to £356.4 million (see below).

2009 FINANCIAL PERFORMANCE

Underlying Loss before Tax

Statutory results include certain items which are not considered by management to represent part of the underlying performance of the Group in any one financial period. A reconciliation of statutory and underlying loss before tax is set out in the following table:

	Six months to 30 June 2009 £m	Six months to 31 Dec 2009 £m	Full Year 2009 £m	Full Year 2008 £m
Statutory (loss)/profit before taxation	(724.2)	466.7	(257.5)	(1,355.9)
Provision for customer redress	25.7	52.8	78.5	5.0
Accounting volatility on derivatives	298.2	(302.5)	(4.3)	(137.1)
Impact of State aid approval on the cost of Government funding and HM Treasury guarantees	156.4	(356.4)	(200.0)	200.0
Underlying (loss) before taxation	(243.9)	(139.4)	(383.3)	(1,288.0)

The underlying loss in 2009 has reduced by £904.7 million compared with 2008, reflecting increased underlying net interest income (see below), lower total costs and a reduced impairment charge on treasury assets. The £200.0 million State aid impact comprises £223.9 million net interest income, less additional fees payable of £23.9 million.

Summary Income Statement

The summary income statement for the six months to 30 June 2009 and 31 December 2009 as well as the 12 months to 31 December 2009 and 31 December 2008 is as follows:

	Six months to 30 June 2009 £m	Six months to 31 Dec 2009 £m	Full Year 2009 £m	Full Year 2008 £m
Net interest income	74.2	1,083.2	1,157.4	50.9
Other income	(85.3)	34.9	(50.4)	203.5
Total income	(11.1)	1,118.1	1,107.0	254.4
Administrative expenses	(104.7)	(151.3)	(256.0)	(269.7)
Exceptional expenses	(5.7)	(34.2)	(39.9)	(163.6)
Donation to The Northern Rock Foundation	(7.5)	(22.5)	(30.0)	(15.0)
Total expenses	(117.9)	(208.0)	(325.9)	(448.3)
Impairment charges on loans and advances	(602.2)	(442.6)	(1,044.8)	(894.4)
Impairment credits / (charges) on unsecured investment loans	7.0	(0.8)	6.2	(267.6)
(Loss)/profit before taxation	(724.2)	466.7	(257.5)	(1,355.9)
Taxation	(15.8)	(3.3)	(19.1)	46.2
(Loss)/profit for the period	(740.0)	463.4	(276.6)	(1,309.7)

Total Income and Interest Margin and Spread

The following table shows net interest income, total income and interest ratios for the six months to 30 June 2009 and 31 December 2009 as well as the 12 months to 31 December 2009 and 31 December 2008:

	Six months to		Full Year	
	30 June 2009 £m	31 Dec 2009 £m	2009 £m	2008 £m
Statutory				
Net interest income	74.2	1,083.2	1,157.4	50.9
Other income	(85.3)	34.9	(50.4)	203.5
Total income	(11.1)	1,118.1	1,107.0	254.4
Underlying				
Net interest income	491.1	536.7	1,027.8	390.0
Other income	(21.9)	(24.7)	(46.6)	(67.7)
Total income	469.2	512.0	981.2	322.3
Interest margin (as reported)	0.15%	2.69%	1.39%	0.05%
Interest spread (as reported)	0.10%	2.70%	1.36%	(0.13)%
Interest margin (underlying)	1.12%	1.34%	1.23%	0.41%
Interest spread (underlying)	1.08%	1.32%	1.20%	0.23%

Underlying interest margin (which primarily excludes accounting volatility on derivatives and reflects the impact of State aid approval) at 1.23% and underlying interest spread at 1.20% for the 12 months to 31 December 2009 compare with 0.41% and 0.23% respectively for the 12 months to 31 December 2008. The increases primarily reflect the increasing proportion of customers on standard variable rate as fewer customers remortgage to other mortgage lenders following the end of their product term and the interest rate environment.

The table below shows an analysis of other income:

	2009 £m	2008 £m
Fee and commission income	26.8	60.9
Fee and commission expense	(94.2)	(59.3)
Other operating income	12.5	4.2
Provision for customer redress	(78.5)	(5.0)
Losses on available for sale securities	(12.3)	(9.0)
Gains on disposal of loan books	-	49.1
Net trading income	95.3	162.6
Total other income	(50.4)	203.5

Fee and commission income comprises commission income generated on sales of third party products such as building and contents insurance and fees receivable on redemption of mortgages.

Fee and commission expense represents third party administration fees not included in interest expense, as well as fees payable to HM Treasury in relation to Government guarantees provided to the Company. In addition, in 2009 a provision of £3.9 million (2008 - £16.8 million) was made for an estimated levy from the Financial Services Compensation Scheme in relation to a number of retail deposit books.

Provision for customer redress is in respect of potential customer complaints and is likely to be utilised over several years.

The gains on disposal of loan books in 2008 represent the gains realised on the sale of the Lifetime mortgage portfolio to JP Morgan in January 2008. The book was sold at a premium of 2.25% to the balance sheet value, with proceeds of approximately £2.3 billion. There were no equivalent transactions in 2009.

Net trading income includes losses on fair value movements on derivatives not in designated hedge accounting relationships of £ 2,391.6 million (2008 - gain of £9,465.7 million), together with cross-currency exchange rate gains of £ 2,497.6 million (2008 - loss of £9,259.7 million). These are covered in more detail below within the narrative on accounting volatility on derivatives. In addition, within net trading income is a negative movement in the fair value of treasury investment securities designated as “held at fair value through the income statement” amounting to £10.7 million (2008 - £46.4 million)

Accounting Volatility on Derivatives

Volatility in reported results arises from accounting volatility on derivative instruments that hedge risk exposure on an economic basis. Such accounting volatility, which will offset over time, arises due to fair value volatility on designated hedges or because hedge accounting has not been adopted or is not achievable on certain transactions. The Company manages its risk exposures on an economic basis and does not include such accounting volatility in the assessment of its underlying performance or in assessing the effectiveness of its derivative positions in any one financial period.

An analysis of volatility and other fair value gains and losses is set out below:

	Six months to		Full Year	
	30 June 2009 £m	31 Dec 2009 £m	2009 £m	2008 £m
Fair value hedge volatility	(234.0)	173.1	(60.9)	(85.4)
Cash flow hedge volatility	(15.0)	(25.8)	(40.8)	16.5
Hedge volatility included within interest margin	(249.0)	147.3	(101.7)	(68.9)
Fair value movements on derivatives not in hedge accounting relationships	(3,366.2)	974.6	(2,391.6)	9,465.7
Translation gains / (losses) on associated instruments	3,317.0	(819.4)	2,497.6	(9,259.7)
	(49.2)	155.2	106.0	206.0
Total hedge ineffectiveness and other fair value gains and losses	(298.2)	302.5	4.3	137.1

Northern Rock enters into derivative financial instruments for economic hedging purposes. Some of these are designated and accounted for as IAS 39 compliant fair value or cash flow hedge relationships. Where effective fair value hedge relationships can be established, the movement in the fair value of the derivative instrument is offset in full or in part by opposite movements in the fair value of the instrument being hedged. Any ineffectiveness arising from different movements in fair value will offset over time. Ineffectiveness is included within interest income or expense, as appropriate.

Where derivatives are economically effective for hedging purposes but cannot be included within effective IAS 39 compliant accounting hedge relationships, e.g. for instruments included in equity, the movement in their fair value is recorded within net trading expense. These are also excluded from management’s view of operational performance as these fair value adjustments are not realised in the current accounting period.

The same treatment applies to the revaluation at each balance sheet date of economically hedged foreign currency assets and liabilities.

During 2009 accounting volatility on derivative instruments resulted in a gain of £4.3 million compared with a gain of £137.1 million in 2008. The gain of £302.5 million in the second half of 2009 compares to a charge of £298.2 million in the first half of the year. Of this reversal, over 60% represents the change in value of swaps on floating rate securitised notes issued in foreign currency due to changes in basis risk. Such swaps do not qualify for hedge accounting treatment and consequently there is no offsetting fair value movement on the underlying notes. The balance of the reversal reflects volatility in exchange rates and interest rates across a range of derivatives entered into to minimise risk.

Operating Expenses

(Excluding exceptional expenses and the donation to The Northern Rock Foundation)

	2009 £m	2008 £m
Staff costs	142.1	163.4
Other expenses	89.6	84.4
Depreciation and amortisation	24.3	21.9
Total operating expenses	256.0	269.7

Total operating expenses amounted to £256.0 million, representing a decrease of 5.1% (2008 - £269.7 million). This primarily reflects a full year effect of the reduction in headcount in 2008, in reduced staff costs in 2009.

Exceptional Expenses

The following table provides an analysis of exceptional expenses incurred in 2009.

	2009 £m	2008 £m
Staff costs	0.1	37.0
Professional fees incurred by the Company	1.2	29.8
Professional fees recharged by the Tripartite Authorities	2.7	10.7
Corporate advisory fees	-	4.2
Reimbursement of third party expenses	-	8.7
Accelerated charge on cancellation of share schemes	-	39.6
Company valuation	1.6	1.5
Other exceptional administrative expenses	0.2	10.0
	5.8	141.5
Exceptional impairment credits on property, plant and equipment	(5.3)	(23.6)
Provision for onerous contracts	0.1	18.5
Exceptional impairment charges on intangible assets	-	27.2
Strategic project development	39.3	-
	39.9	163.6

Exceptional expenses of £39.9 million were incurred in 2009 (2008 - £163.6 million) primarily relating to professional fees associated with the development of the business plan and the restructuring process. Further analysis of the exceptional costs incurred during 2008 is included in note 6 to the results.

Taxation

There has been a tax charge in the year of £19.1 million (2008 credit of £46.2 million). The net tax charge for the year includes a tax credit of £26.7 million and tax charges of £34.5 million and £12.1 million.

The £26.7 million credit arises due to a change in the timing of when certain Group profits are recognised for tax purposes allowing the utilisation of 2009 taxable losses.

During 2009, the Group's securitisation special purpose entities elected into a new tax regime in order to eliminate future tax volatility. This means that certain items which could previously be recognised as a deferred tax asset can no longer be recognised, resulting in a charge of £34.5 million.

Additionally there is a tax charge of £12.1 million which arises from a write off of deferred tax assets through the income statement. These assets may no longer be recognised because the matching deferred tax liability has been reversed through the pension reserve.

Capital

	2009 £m	2008 £m
Core tier 1 capital	(337.5)	(17.1)
Perpetual non-cumulative preference shares	630.2	648.3
Innovative tier 1 capital	299.3	299.3
Deductions from tier 1 capital	(101.6)	(146.4)
Tier 1 capital after deductions	490.4	784.1
Upper tier 2 capital	1,211.4	1,313.5
Lower tier 2 capital	935.0	940.5
Deductions from tier 2 capital	(42.5)	(76.3)
Tier 2 capital after deductions	2,103.9	2,177.7
Deductions from totals of tier 1 and tier 2	(5.1)	(5.1)
Total available capital resources	2,589.2	2,956.7
Risk weighted assets	26,233.6	27,471.4

The Company's total available capital resources are shown in the table above. The FSA's capital resources gearing rules require core tier 1 capital to account for at least 50% of total tier 1 capital and limit total tier 2 capital to 100% of tier 1 capital and lower tier 2 capital to 50% of tier 1 capital. Certain elements of the total available capital resources shown above are therefore restricted for regulatory purposes. The Company was granted a waiver from the restriction that total tier 2 capital must not exceed total tier 1 capital during the period 31 July 2008 to 30 June 2009 and from 28 October 2009 until 31 December 2009.

As a result of State aid approval in October 2009 which requires the Company to withhold coupon payments on all subordinated instruments where possible, and the exercise of the general right of deferral of coupon payment contained within the terms and conditions of the instrument, certain subordinated debt has been reclassified as equity under the requirements of IAS 32.

As previously described a legal and capital restructure of the former Northern Rock was completed on 1 January 2010. The Company remains authorised and regulated by the FSA. However, it is now a regulated mortgage company rather than a bank and is therefore subject to significantly lower capital requirements than previously.

Total capital resources of the Company are available without restriction in order to meet its capital requirement and are initially marginally higher than the total shown above.

Social Responsibility – The Northern Rock Foundation

Since demutualisation in 1997, the Company has supported The Northern Rock Foundation, which supports community and charitable causes mainly but not exclusively in the North East of England and Cumbria. Following the Company entering into public ownership, a commitment has been made that the Foundation will receive at least £15.0 million per year in 2008, 2009 and 2010. The donation for 2009 amounts to £15.0 million (2008 - £15.0 million), with a further £15 million accrued in the accounts for 2009 reflecting the commitment for 2010. This results in £220 million having been paid since the Foundation's inception in 1997. Further information on The Northern Rock Foundation is available on the Company's website.

Employees

The Company has always valued its reputation as a caring employer, seeking to attract and retain high calibre employees. Opportunities for training are given a high priority to ensure that all individuals can contribute to their own career development. This approach extends itself to the fair treatment of people with disabilities in relation to their recruitment, training and development.

All staff of Northern Rock (Asset Management) plc were transferred to the new bank, Northern Rock plc, following completion of the legal and capital restructure on 1 January 2010.

NORTHERN ROCK (ASSET MANAGEMENT) PLC ANNUAL RESULTS

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	Note	2009 (Unaudited) £m	2008 (Audited) £m
Interest and similar income		2,032.9	5,706.9
Interest expense and similar charges		(875.5)	(5,656.0)
Net interest income	2	1,157.4	50.9
Fee and commission income		26.8	60.9
Fee and commission expense		(94.2)	(59.3)
Other operating income		12.5	4.2
Provision for customer redress		(78.5)	(5.0)
Losses on available for sale securities	3	(12.3)	(9.0)
Gains on disposal of loan books	4	-	49.1
Net trading income	5	95.3	162.6
		(50.4)	203.5
Total income		1,107.0	254.4
Analysed as:			
Exceptional State aid clawback	2	200.0	-
Recurring total income		907.0	254.4
Total income		1,107.0	254.4
Administrative expenses	6	(231.7)	(247.8)
Depreciation and amortisation	6	(24.3)	(21.9)
Donation to The Northern Rock Foundation		(30.0)	(15.0)
Exceptional operating expenses	6	(39.9)	(163.6)
Total operating expenses		(325.9)	(448.3)
Impairment losses on loans and advances	7	(1,044.8)	(894.4)
Impairment credits/(losses) on investment securities reclassified as loans and receivables and unsecured investment loans	3	6.2	(267.6)
Loss before taxation		(257.5)	(1,355.9)
Income tax (expense)/credit		(19.1)	46.2
Loss for the year		(276.6)	(1,309.7)
Attributable to:			
Appropriations	8	32.5	68.3
Loss attributable to equity shareholders		(309.1)	(1,378.0)
Total		(276.6)	(1,309.7)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2009 (Unaudited) £m	2008 (Audited) £m
Loss for the year	(276.6)	(1,309.7)
Other comprehensive income		
Net movement in available for sale reserve	216.0	(531.5)
Net movement in cash flow hedge reserve	143.9	(240.5)
Actuarial gains and losses	(45.9)	25.5
Tax effects of the above	11.3	15.6
Total other comprehensive income	325.3	(730.9)
Total comprehensive income	48.7	(2,040.6)
Attributable to:		
Appropriations	32.5	68.3
Comprehensive income attributable to equity shareholders	16.2	(2,108.9)
Total	48.7	(2,040.6)

The cumulative other comprehensive income in respect of assets classified as held for sale is £16.2m at 31 December 2009.

CONSOLIDATED BALANCE SHEET

	Note	Continuing operations 31 December 2009 (Unaudited) £m	Held for resale 31 December 2009 (Unaudited) £m	Total 31 December 2009 (Unaudited) £m	31 December 2008 (Audited) £m
Assets					
Cash and balances with central banks	9	7,500.5	9.9	7,510.4	9,336.8
Derivative financial instruments		7,473.8	-	7,473.8	13,314.4
Loans and advances to banks		2,836.8	865.6	3,702.4	3,384.4
Loans and advances to customers	10	53,924.9	10,343.3	64,268.2	72,299.4
Fair value adjustments of portfolio hedging	10	971.3	160.3	1,131.6	1,701.9
Investment securities and unsecured investment loans	11	2,663.8	424.0	3,087.8	3,809.2
Intangible assets		30.7	23.1	53.8	64.9
Property, plant and equipment		121.9	32.7	154.6	198.4
Current tax asset		6.8	-	6.8	21.8
Deferred income tax asset		-	-	-	35.2
Retirement benefit asset		-	-	-	31.7
Other assets		24.5	4.4	28.9	32.9
Prepayments and accrued income		13.5	13.7	27.2	115.0
Total assets		75,568.5	11,877.0	87,445.5	104,346.0
Liabilities					
Loans from Government	12	14,315.5	-	14,315.5	15,583.4
Deposits by banks		5,787.0	235.3	6,022.3	4,625.1
Customer accounts	13	-	20,607.6	20,607.6	20,722.7
Derivative financial instruments		1,673.8	-	1,673.8	2,220.8
Debt securities in issue					
Securitised notes	14	28,801.9	-	28,801.9	37,986.9
Covered bonds	14, 15	9,866.1	-	9,866.1	12,550.3
Other	14	3,305.7	-	3,305.7	7,199.1
Other liabilities		68.7	19.2	87.9	77.6
Accruals and deferred income		252.7	188.4	441.1	949.4
Deferred income tax liability		7.1	-	7.1	6.9
Retirement benefit obligations		4.9	-	4.9	-
Provisions for liabilities and charges		87.8	-	87.8	23.5
Subordinated liabilities		935.0	-	935.0	1,514.9
Tier one notes		233.7	-	233.7	251.8
		65,339.9	21,050.5	86,390.4	103,712.4
Equity					
Shareholders' funds					
Called up share capital	16	124.0	-	124.0	124.0
Share premium account	16	403.2	-	403.2	403.2
Capital redemption reserve		7.3	-	7.3	7.3
Other reserves					
Revaluation reserve – available for sale investments	17	(370.1)	(16.2)	(386.3)	(602.5)
Hedging reserve – cash flow hedges		(125.8)	-	(125.8)	(269.7)
Retained earnings		(425.5)	17.1	(408.4)	(64.5)
Total equity attributable to equity shareholders		(386.9)	0.9	(386.0)	(402.2)
Non shareholders' funds					
Reserve capital instruments		299.3	-	299.3	299.3
Subordinated notes		1,141.8	-	1,141.8	736.5
Total non shareholders' funds		1,441.1	-	1,441.1	1,035.8
Total equity		1,054.2	0.9	1,055.1	633.6
Total equity and liabilities		66,394.1	21,051.4	87,445.5	104,346.0

Items held for resale are those transferred to Northern Rock plc on 1 January 2010 (see note 20).

NORTHERN ROCK (ASSET MANAGEMENT) PLC ANNUAL RESULTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	2009 (Unaudited) £m	2008 (Audited) £m
Net cash (outflow)/inflow from operating activities		
Loss before taxation	(257.5)	(1,355.9)
Adjusted for:		
Depreciation and amortisation	24.3	21.9
Exceptional impairment credits on property, plant and equipment	(5.3)	(23.6)
Exceptional impairment charges on intangible assets	-	27.2
Impairment losses on loans and advances	1,044.8	894.4
Impairment (credits)/losses on investment securities reclassified as loans and receivables and unsecured investment loans	(6.2)	267.6
Income taxes refunded	39.4	91.8
Fair value adjustments on financial instruments	335.9	(604.4)
Other non cash movements	388.3	333.5
Net cash inflow/(outflow) from operating losses before changes in operating assets and liabilities	1,563.7	(347.5)
Changes in operating assets and liabilities		
Net (increase)/decrease in deposits held for regulatory or monetary control purposes	(12.4)	16.9
Net decrease in loans and advances	6,853.9	24,852.0
Net decrease/(increase) in derivative financial instruments receivable	5,840.6	(11,073.4)
Net decrease/(increase) in other assets	4.0	(5.8)
Net decrease/(increase) in prepayments and accrued income	87.8	(72.5)
Net decrease in debt securities in issue	(15,754.7)	(4,728.9)
Net decrease in loans from Government	(1,267.9)	(12,889.6)
Net increase in deposits from other banks	1,397.2	3,881.0
Net (decrease)/increase in customer accounts	(48.5)	9,044.4
Net (decrease)/increase in derivative financial instruments payable	(547.0)	477.4
Net increase in other liabilities	10.3	16.3
Net decrease in accruals and deferred income	(508.3)	(13.5)
Net cash (outflow)/inflow from operating activities	(2,381.3)	9,156.8
Net cash inflow from investing activities		
Net investment in intangible assets	(0.4)	(14.7)
Net investment in property, plant and equipment	36.3	5.7
Purchase of securities	(42.6)	(126.7)
Proceeds from sale and redemption of securities	764.1	2,424.9
	757.4	2,289.2
Net cash outflow from financing activities		
Appropriations (including tax of £nil, 2008 - £3.2m)	(32.5)	(71.5)
	(32.5)	(71.5)
Net (decrease)/increase in cash and cash equivalents	(1,656.4)	11,374.5
Opening cash and cash equivalents	12,810.4	1,435.9
Closing cash and cash equivalents	11,154.0	12,810.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
Year ended 31 December 2009								
Balance at I January 2009	**124.0**	**403.2**	**7.3**	**(872.2)**	**(64.5)**	**(402.2)**	**1,035.8**	**633.6**
Loss for the year	-	-	-	-	(309.1)	(309.1)	32.5	(276.6)
Other comprehensive income								
Net movement in available for sale reserve	-	-	-	216.0	-	216.0	-	216.0
Net movement in cash flow hedge reserve	-	-	-	143.9	-	143.9	-	143.9
Actuarial gains and losses	-	-	-	-	(45.9)	(45.9)	-	(45.9)
Tax effects of the above	-	-	-	0.2	11.1	11.3	-	11.3
Total other comprehensive income	-	-	-	360.1	(34.8)	325.3	-	325.3
Appropriations	-	-	-	-	-	-	(32.5)	(32.5)
Reclassification of subordinated debt instrument	-	-	-	-	-	-	405.3	405.3
Balance at 31 December 2009	**124.0**	**403.2**	**7.3**	**(512.1)**	**(408.4)**	**(386.0)**	**1,441.1**	**1,055.1**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Audited)

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' funds £m	Non shareholders' funds £m	Total equity £m
Year ended 31 December 2008									
Balance at 1 January 2008		**124.0**	**403.2**	**7.3**	**(122.9)**	**1,251.9**	**1,663.5**	**1,035.8**	**2,699.3**
Loss for the year		-	-	-	-	(1,378.0)	(1,378.0)	68.3	(1,309.7)
Other comprehensive income									
Net movement in available for sale reserve		-	-	-	(531.5)	-	(531.5)	-	(531.5)
Net movement in cash flow hedge reserve		-	-	-	(240.5)	-	(240.5)	-	(240.5)
Actuarial gains and losses		-	-	-	-	25.5	25.5	-	25.5
Tax effects of the above		-	-	-	22.7	(7.1)	15.6	-	15.6
Total other comprehensive income		-	-	-	(749.3)	18.4	(730.9)	-	(730.9)
Appropriations		-	-	-	-	-	-	(68.3)	(68.3)
Movement in own shares	18	-	-	-	-	43.2	43.2	-	43.2
Balance at 31 December 2008		**124.0**	**403.2**	**7.3**	**(872.2)**	**(64.5)**	**(402.2)**	**1,035.8**	**633.6**

NOTES TO THE RESULTS

1. Basis of Preparation

The financial statements have been prepared on a going concern basis.

Northern Rock (Asset Management) plc, formerly Northern Rock plc, (Northern Rock, the Company, the Group) was taken into public ownership on 22 February 2008. During 2007 and 2008 loan facilities to the Company were put in place by the Bank of England all of which were novated to HM Treasury on 28 August 2008.

On 28 October 2009, the European Commission approved State aid to the Company confirming the facilities provided by HM Treasury, thereby removing the material uncertainty over the Company's ability to continue as a going concern which previously existed.

Following the completion of a legal and capital restructuring on 1 January 2010, the Company no longer operates as a deposit taking institution under the supervision of the Financial Services Authority (FSA). It is now regulated by the FSA as a mortgage administration company and the Directors believe it has appropriate and adequate levels of capital to support these activities.

Further, HM Treasury has confirmed that it is its intention to continue to fund the Company so as to maintain the Company as a going concern and enable the Company to meet its debts as and when they fall due for a period of not less than 18 months from 31 December 2009. It has also committed to convert up to £1.6bn of the Government loan to meet regulatory capital requirements if so required.

The 2009 Preliminary Results have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The Annual Results have been prepared under the historical cost convention, as modified by the revaluation of available for sale investments and financial assets and liabilities held at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

New standards, amendments and interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for financial years beginning on 1 January 2009, have been endorsed for adoption by the EU and are relevant to the Group:

- IAS 1 (revised) – Presentation of financial statements. This standard has resulted in changes to the Statement of Recognised Income and Expense. This has been split into two statements, one showing changes in equity resulting from transactions not reflected in the income statement and the other showing changes in equity resulting from transactions with shareholders.

- Amendment to IFRS 7 Improving Disclosures about Financial Instruments. This amendment has changed the IFRS 7 disclosure requirements in the statutory accounts. The main impact has been the classification of fair value assets and liabilities against a fair value hierarchy.

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

- IFRS 8 – Operating segments

- IAS 23 (revised) – Borrowing costs

- IFRIC 13 – Customer loyalty programmes

- Amendment to IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations

1. Basis of Preparation (continued)

- IAS 32 (amendment) – Financial instruments: presentation, and consequential amendments to IAS 1
- Revised IFRS 3 Business Combinations. This is effective for annual periods beginning on or after 1 July 2009
- Revised IAS 27 Consolidated and separate financial statements. This is effective for annual periods beginning on or after 1 July 2009
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
- IFRIC 16 – Hedges of a net investment in a foreign operation. This is effective for annual periods beginning on or after 1 October 2008
- Improvements to IFRSs
- IFRS 1 (revised) 'First time adoption of IFRS'
- Amendment 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'
- IFRIC 18 – Transfer of Assets from Customers. This is effective for annual periods beginning on or after 1 July 2009
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of financial statements on Puttable financial instruments and obligations arising on liquidation
- Amendments to IFRIC 9 and IAS 39 regarding embedded derivatives. This is effective for annual periods beginning on or after 1 July 2008
- Amendment to IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 Financial instruments: Disclosures on the Reclassification of financial assets. This is effective for annual periods beginning on or after 1 July 2008
- Amendment to IAS 39 Financial Instruments: Recognition and measurement: Eligible Hedged Items. This is effective for annual periods beginning on or after 1 July 2009
- IFRIC 15 – Agreements for the construction of real estate
- IFRIC 17 – Distribution of Non-cash assets to Owners. This is effective for annual periods beginning on or after 1 July 2009

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

- Amendment to IAS 24, Related party disclosures. Management is assessing the impact of this amendment on its financial statements to ensure it meets the revised disclosure requirements introduced by this amendment.
- IFRS 9 Financial Instruments. Management is assessing the impact of this amendment on its financial statements to ensure it meets the revised disclosure requirements introduced by this amendment.

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

- Amendments to IAS 32 Financial Instruments: Presentation on classification or rights issues.

1. Basis of Preparation (continued)

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

- IFRIC 19 – Extinguishing financial liabilities with equity instruments
- Amendment to IFRIC 14, IAS 19 – Prepayments of a minimum funding requirement
- Amendments to IFRS 1, on first time adoption of IFRS additional exemptions
- Amendments to IFRS 1, First time adoption of IFRS
- IFRS 2 Share-based payment – Group cash-settled share-based payment transactions

2. Net Interest Income

	2009 £m	2008 £m
Interest and similar income		
On secured advances	1,699.0	4,684.0
On other lending	170.1	446.7
On investment securities and deposits	163.8	576.2
Interest and similar income	2,032.9	5,706.9
Interest expense and similar charges		
On retail customer accounts	287.8	956.6
On other deposit accounts including loans from Government	96.8	1,399.6
Other	490.9	3,299.8
Interest expense and similar charges	875.5	5,656.0
Net interest income	1,157.4	50.9

As a result of State aid approval in October 2009, net interest income includes a net interest clawback of £223.9m in 2009. Offsetting this are additional fees payable of £23.9m resulting in a total income clawback of £200.0m. The 2008 figures include corresponding payments of the same amount.

Also, included within interest income is an adjustment of £11.3m (2008 £3.3m) with respect to the unwind of the discount included in the impairment losses on loans and advances.

	2009	2008
Average interest earning assets excluding fair value adjustments	83,395.6	95,972.8
Average interest bearing liabilities excluding fair value adjustments	81,541.3	93,031.2
Interest margin	1.39%	0.05%
Interest spread	1.36%	(0.13)%

Interest margin has been calculated by reference to average interest earning assets excluding fair value adjustments. Average balances have been calculated on a monthly basis. Interest spread represents the difference between interest receivable as a % of average interest earning assets, excluding fair value adjustments, and interest payable as a % of average interest bearing liabilities, excluding fair value adjustments.

For the purpose of calculating interest margin and spread, average balances for assets and liabilities denominated in foreign currencies, where these have been economically hedged, are based on the contract rate implicit in the associated hedging instrument.

3. (Losses)/Gains on Investment Securities and Unsecured Investment Loans

(Losses)/gains on investment securities and unsecured investment loans are analysed as follows:

	2009 £m	2008 £m
(Losses)/gains on disposal of available for sale securities	(6.8)	44.4
Impairment losses on available for sale securities	(5.5)	(53.4)
Total losses on available for sale securities	(12.3)	(9.0)
Impairment credits/(losses) on investment securities reclassified as loans and receivables and unsecured investment loans	6.2	(267.6)
Total	(6.1)	(276.6)

In addition to the above, net losses from changes in fair value of financial assets designated at fair value are given in note 5.

Losses of £6.8m (2008 gains of £44.4m) previously recognised in reserves have been transferred to (losses)/gains on available for sale securities in the Group income statement on the disposal of available for sale securities.

	2009 £m	2008 £m
Impairment allowance on unsecured investment loans	333.5	423.2

4. Gains on Disposal of Loan Books

During 2008 the Group sold £2,240.7m (net of provisions) of its residential equity release mortgage portfolio to JP Morgan Limited. Total proceeds (net of costs) amounted to £2,289.8m. The surplus on disposal amounted to £49.1m. Included in the reported results for the year ended 31 December 2008 is net interest income of £0.9m in relation to those assets to the date of disposal.

5. Net Trading Income

Net trading income comprises:

	2009 £m	2008 £m
Net losses from changes in fair value of financial assets designated at fair value	(10.7)	(46.4)
Net income from financial assets designated at fair value	-	3.0
Fair value movements of future cash flows excluding accruals on derivatives not in hedge accounting relationships	(2,391.6)	9,465.7
Translation gains/(losses) on associated instruments	2,497.6	(9,259.7)
	95.3	162.6

6. Operating Expenses

Operating expenses, excluding the donation to The Northern Rock Foundation and exceptional administrative expenses, are as follows:

	2009 £m	2008 £m
Staff costs	142.1	163.4
Other expenses	89.6	84.4
Depreciation and amortisation	24.3	21.9
Total operating expenses	256.0	269.7

Exceptional administrative expenses are the costs associated with the restructuring of the business and comprise:

	2009 £m	2008 £m
Staff costs	0.1	37.0
Professional fees incurred by the Company	1.2	29.8
Professional fees recharged by the Tripartite Authorities	2.7	10.7
Corporate advisory fees	-	4.2
Reimbursement of third party expenses	-	8.7
Accelerated charge on cancellation of share schemes	-	39.6
Company valuation	1.6	1.5
Other exceptional administrative expenses	0.2	10.0
	5.8	141.5
Exceptional impairment credits on property, plant and equipment	(5.3)	(23.6)
Provision for onerous contracts	0.1	18.5
Exceptional impairment charges on intangible assets	-	27.2
Strategic project development	39.3	-
	39.9	163.6

Exceptional staff costs of £0.1m (2008 £37.0m) mainly represent the costs of redundancy, payments in lieu of notice and outplacement services associated with the reduction in the workforce as part of the restructuring of the business.

The reimbursement of third party expenses in 2008 represented costs incurred by third parties as part of the strategic review process.

The accelerated charge on cancellation of share schemes in 2008 represented the charge to the income statement of all previously unexpensed costs required by IFRS 2 – Share-based Payment on cancellation of staff share schemes after the acquisition of all shares in the Company by HM Treasury on 22 February 2008.

Company valuation costs of £1.6m (2008 £1.5m) relate to work done by BDO Stoy Hayward to value the Company’s shares before the Company was taken into temporary public ownership.

The exceptional impairment credits of £5.3m (2008 £23.6m) have arisen primarily due to reversals of impairments made in 2007 in respect of properties in the course of construction.

The provisions for onerous contracts of £0.1m (2008 £18.5m) represent the costs associated with properties no longer required after the restructuring of the business.

6. Operating Expenses (continued)

The exceptional impairment charges on intangible assets of £nil (2008 £27.2m) represent the costs associated with the accelerated amortisation of software no longer required after the restructuring of the business.

The strategic project development costs represent the costs associated with the legal and capital restructuring and positioning the Company to increase lending in a prudent and sustainable way.

The monthly average number of persons (including Directors) employed by the Group was as follows:

	2009	2008
Full time	3,555	4,231
Part time	991	1,045

7. Impairment Losses on Loans and Advances

	2009 £m	2008 £m
Impairment charge		
Secured on residential property	458.9	364.0
Secured on residential buy to let property	83.4	48.9
Secured commercial	4.4	8.2
Unsecured	498.1	473.3
Total impairment charge on loans and advances	1,044.8	894.4
% of mean loans and advances to customers	1.51%	1.04%

	2009 £m	2008 £m
Impairment allowance		
Secured on residential property	495.8	335.4
Secured on residential buy to let property	100.3	42.9
Secured commercial	12.5	7.8
Unsecured	564.3	483.6
Total impairment allowance on loans and advances	1,172.9	869.7
% of period end loans and advances to customers	1.79%	1.19%

8. Appropriations

	2009 £m	2008 £m
Reserve capital instruments	-	25.2
Subordinated notes	32.5	46.3
Tax on appropriations	-	(3.2)
Total	32.5	68.3

9. Cash and Balances with Central Banks

	2009 £m	2008 £m
Cash in hand	9.9	9.4
Balances with Bank of England for liquidity purposes	3,590.2	6,611.9
Collateral balances with Bank of England	3,846.5	2,551.7
Mandatory reserve deposits with central banks	63.8	51.4
Other balances with central banks	-	112.4
	7,510.4	9,336.8

Mandatory reserve deposits with central banks are not available for use in day-to-day operations.

10. Loans and Advances to Customers

	2009 £m	2008 £m
Advances secured on residential property not subject to securitisation	27,336.0	28,679.0
Advances secured on residential property subject to securitisation	27,254.4	32,325.0
	54,590.4	61,004.0
Residential buy to let loans not subject to securitisation	5,477.3	5,695.7
Total advances secured on residential property	60,067.7	66,699.7
Commercial secured advances not subject to securitisation	287.9	301.7
Unsecured loans not subject to securitisation	3,912.6	5,298.0
	64,268.2	72,299.4

Fair value adjustments of portfolio hedging amounting to £1,131.6m (2008 £1,701.9m) relate to fair value adjustments of loans and advances to customers in relation to interest rate risk as a result of their inclusion in a fair value portfolio hedge relationship.

The balances above are stated inclusive of impairment allowances (see note 7).

11. Investment Securities and Unsecured Investment Loans

	2009 £m	2008 £m
Available for sale securities	168.5	422.5
Assets held at fair value through the income statement	-	11.5
Investment securities held as loans and receivables	2,561.0	2,952.8
Unsecured investment loans	358.3	422.4
	3,087.8	3,809.2

The investment securities held as loans and receivables are asset backed securities and floating rate notes which were reclassified in the second half of 2008 under the terms of IAS 39 paragraph 50E.

Unsecured investment loans were previously reported in loans and advances to customers but have been reclassified to investment securities and unsecured investment loans to facilitate improved presentation.

The balances above are stated inclusive of impairment allowances (see note 3).

12. Loans from Government

	2009 £m	2008 £m
Amount due to HM Treasury	14,315.5	15,583.4

The amount due to HM Treasury was novated from the Bank of England on 28 August 2008 with unchanged terms and conditions. On 28 October 2009 on receipt of State aid, the loan remains repayable on demand and the interest payable changed from a margin above the Official Bank Rate to a margin above LIBOR.

13. Customer Accounts

	2009 £m	2008 £m
Branch accounts	4,461.8	4,312.8
Postal accounts	9,106.0	7,495.9
Internet accounts	3,774.2	5,397.7
Offshore accounts	1,831.9	2,023.2
Other accounts	304.3	393.2
Total retail balances	19,478.2	19,622.8
Non bank wholesale customer accounts	1,129.4	1,099.9
	20,607.6	20,722.7

14. Debt Securities in Issue

	Securitised notes £m	Covered bonds £m	Other debt securities in issue £m
Balance at 1 January 2009	37,986.9	12,550.3	7,199.1
Issuances	-	-	848.4
Repayments	(6,935.3)	(1,780.6)	(4,355.2)
Exchange rate movements and fair value adjustments	(2,249.7)	(903.6)	(386.6)
Balance at 31 December 2009	28,801.9	9,866.1	3,305.7

	Securitised notes £m	Covered bonds £m	Other debt securities in issue £m
Balance at 1 January 2008	43,069.5	8,938.1	9,633.7
Issuances	-	-	736.1
Repayments	(13,164.6)	-	(4,950.6)
Exchange rate movements and fair value adjustments	8,082.0	3,612.2	1,779.9
Balance at 31 December 2008	37,986.9	12,550.3	7,199.1

15. Covered Bonds

Included within loans and advances to customers not subject to securitisation are £11,953.2m (2008 £9,686.5m) of mortgage advances assigned to a bankruptcy remote special purpose vehicle. These loans provide security to issues of covered bonds made by the Company, which are included within debt securities in issue amounting to £9,866.1m (2008 £12,550.3m). The Company retains substantially all the risks and rewards associated with these loans and therefore these transactions do not qualify for derecognition under IAS 39.

16. Share Capital

Called up share capital	Ordinary £m	Preference £m	Total £m
At 1 January 2009 and 31 December 2009	123.9	0.1	124.0

Share premium account	Ordinary £m	Preference £m	Total £m
At 1 January 2009 and 31 December 2009	6.8	396.4	403.2

17. Revaluation Reserve – Available for Sale Investments

	2009 £m	2008 £m
Balance at 1 January	(602.5)	(93.7)
Net losses from changes in fair value	(3.3)	(562.0)
Losses transferred to net income due to impairment	5.5	53.4
Net losses/(profits) on disposal transferred to net income	6.8	(44.4)
Amortisation of fair value differences in respect of securities transferred to loans and receivables	236.2	(21.8)
Losses transferred (from)/to net income due to impairment of securities transferred to loans and receivables	(29.2)	43.3
Deferred income taxes	0.2	23.1
Effect of UK tax rate change on deferred tax items	-	(0.4)
Balance at 31 December	(386.3)	(602.5)

18. Own Shares

The credit to retained earnings in respect of movements on own shares for the year is as follows:

	2009 £m	2008 £m
Accelerated charge on cancellation of share schemes (see note 6)	-	39.6
Tax impact of share based payments	-	3.6
	-	43.2

As a result of The Northern Rock plc Transfer Order 2008, all shares were transferred to the Treasury Solicitor as nominee for HM Treasury on 22 February 2008. Consequently, the Company no longer owns any of its own shares. The consideration it will receive for these shares has not yet been determined and therefore no asset has been recognised for the proceeds in these accounts.

19. Related Party Transactions

As a consequence of the transfer of all shares in Northern Rock to the Treasury Solicitor on 22 February 2008, the Company regards the Government as a related party from this date. The balance on loan facilities with the Government is set out in note 12 above. Interest and guarantee fees payable on the loan in 2009, net of interest receivable on liquidity deposit accounts with the Bank of England, are £385.9m (from 22 February 2008 to 31 December 2008: £990.0m). On 28 October 2009, the European Commission approved the Government's State aid package for Northern Rock. This resulted in the clawback of £472.4m of net interest income and guarantee fees previously payable to the Government, of which £200.0m related to 2008.

In addition to these loans and guarantees the Group has transactions with numerous Government bodies on an arm's length basis in relation to the payment of corporation tax, value added tax and employee taxes and the payment of regulatory fees and levies. Transactions with these entities are not disclosed owing to the volume of transactions conducted.

There have been no other material transactions with related parties in the period.

20. Events After The Balance Sheet Date

On 1 January 2010, the following assets and liabilities were transferred to Northern Rock plc under the terms of The Northern Rock Transfer Order 2009, SI 2009/3226:

	31 December 2009 £m	Transfer £m	1 January 2010 £m
Assets			
Cash and balances at central banks	7,510.4	(9.9)	7,500.5
Loans and advances to banks	3,702.4	(865.6)	2,836.8
Loans and advances to customers	64,268.2	(10,343.3)	53,924.9
Fair value adjustments of portfolio hedging	1,131.6	(160.3)	971.3
Investment securities	3,087.8	(424.0)	2,663.8
Intangible assets	53.8	(23.1)	30.7
Property, plant and equipment	154.6	(32.7)	121.9
Other assets	28.9	(4.4)	24.5
Prepayments and accrued income	27.2	(13.7)	13.5
Total transferred assets		(11,877.0)	
Liabilities			
Deposits by banks	6,022.3	(235.3)	5,787.0
Customer accounts	20,607.6	(20,607.6)	-
Other liabilities	87.9	(19.2)	68.7
Accruals and deferred income	441.1	(188.4)	252.7
Other reserves	(512.1)	16.2	(495.9)
Retained earnings	(408.4)	(17.1)	(425.5)
Total transferred liabilities		(21,051.4)	
Balance owed to Northern Rock plc	-	9,174.4	9,174.4

There was no profit or loss associated with this transaction. The balance owed to Northern Rock plc has been paid in full in cash. This was funded by an increase in the loan to the Company from HM Treasury of £8,506m.

The transferred assets and liabilities above have been included on the balance sheet of Northern Rock (Asset Management) plc as ‘held for resale’ at 31 December 2009 in accordance with the requirements of IFRS 5.

In addition to the transfer of the assets and liabilities set out above, all employees of Northern Rock (Asset Management) plc transferred to Northern Rock plc on 1 January 2010. The two companies entered into various agreements under which services are provided primarily by Northern Rock plc to Northern Rock (Asset Management) plc.

As part of the transfer of assets and liabilities to Northern Rock plc, Northern Rock (Asset Management) plc has agreed to indemnify Northern Rock plc against potential claims arising from past business up to a maximum of £100m.

21. Other Information

The information in this announcement is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The statutory accounts of Northern Rock plc for the year ended 31 December 2008 have been filed with the Registrar of Companies in England and Wales. The auditors' report on these accounts was unqualified and did not include a statement under section 498 of the Companies Act 2006, although the auditors' report contained an emphasis of matter in relation to the Company's ability to continue as a going concern, reflecting the need for continued support from HM Treasury.

The report will be available on the Northern Rock website www.northernrockassetmanagement.co.uk from 8.30am on 10 March 2010.

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Forward-looking statements are sometimes, but not always, identified by the use of a date in the future or by such words as "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "potential", "reasonably possible", "targets", "goal" or "estimates" (although their absence does not mean that a statement is not forward looking). By their nature, forward-looking statements are unpredictable and involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Northern Rock (Asset Management) plc’s actual future results or developments may differ materially from the results and developments expressed or implied in these forward-looking statements as a result of a variety of factors, including (but not limited to) UK domestic and global economic and business conditions, market related risks such as interest rate and exchange rate volatility, delays in implementing proposals, difficulties with computer systems, legislative, fiscal, competition and regulatory developments and changes, the impact of any legal or other proceedings against Northern Rock (Asset Management) plc, changes in customer preferences and other factors.

All forward-looking statements in this announcement are based on information available to Northern Rock (Asset Management) plc as of the date hereof. All written or oral forward-looking statements attributable to Northern Rock (Asset Management) plc or any person acting on behalf of Northern Rock (Asset Management) plc are expressly qualified in their entirety by the foregoing.

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