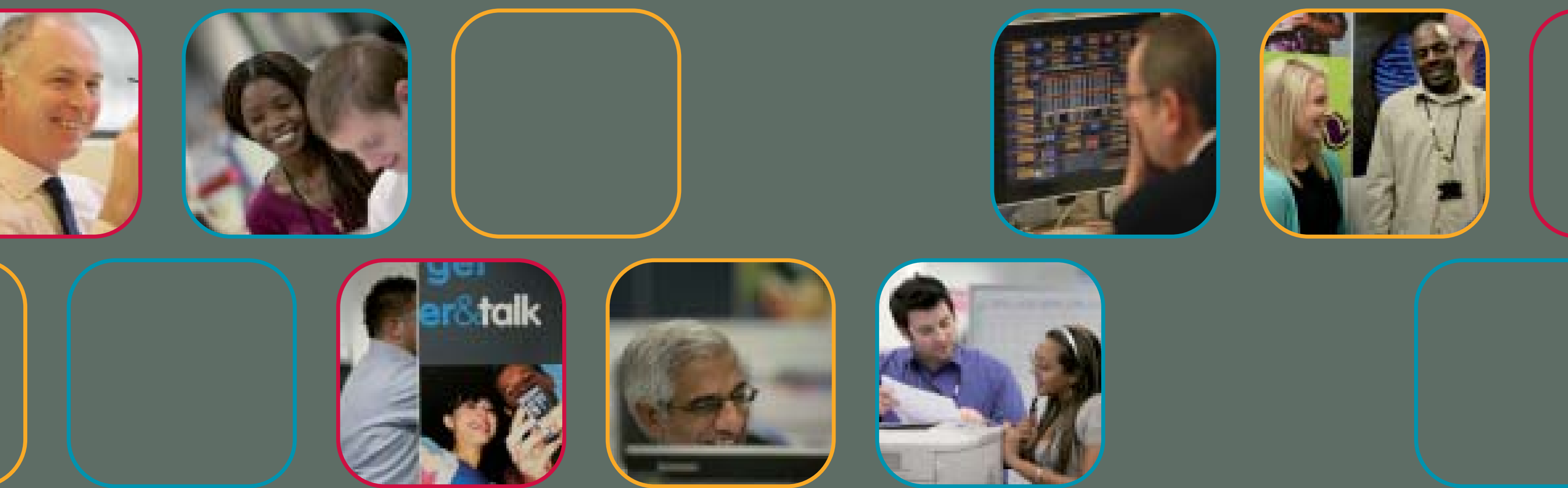
Annual Report & Accounts 2007

Bradford & Bingley

bbg.co.uk

Bradford & Bingley is a UK based financial services business, focused on providing specialist mortgages and savings products.

When our Company was first set up its purpose was clear: to build a better future for the people of northern mill towns. In 1851, we helped our first customer, John Abbey, build a better future for himself and his family by lending him money to buy his own home. We're proud of our heritage. It continues to shape our business and its purpose. We're still building a better future and we're building it for people right across the UK.



Operating highlights

Underlying profit before tax*
£m

	£m
07	**351.6**
06	335.9
05	310.1
04	280.4
03	264.0

Profit before tax
£m

	£m
07	**126.0**
06	246.7
05	263.5
04	100.2 **
03	264.0

Underlying earnings per share*
pence

	pence
07	**40.2**
06	38.1
05	35.4
04	32.4
03	28.8

Earnings per share
pence

	pence
07	**14.9**
06	28.2
05	30.1
04	4.6
03	32.4

Full year dividend
pence

	pence
07	**21.0**
06	20.0
05	18.3
04	17.1
03	16.5

* A reconciliation of underlying profit before tax and the statutory measure profit before tax is provided in the summary income table on page 16.
Figures relating to 2003 are on a UK GAAP basis and 2004-7 are on an IFRS basis.

** Profit before tax including loss on sale of discontinued operations.

Contents

Overview

Overview
What we do

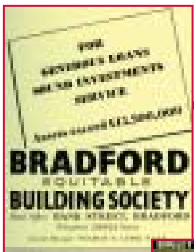
Bradford & Bingley is a UK based financial services business, focused on providing specialist residential mortgages and a wide range of savings products.

We offer residential mortgages, all secured on property, and focus on a range of niche areas providing mortgages for individuals who need a more specialist product than those available in the mainstream market.

Bradford & Bingley also places great importance on its savings business and provides a competitive range of savings products through 197 branches and network of 140 third-party branch-type agents, by phone, post and online.

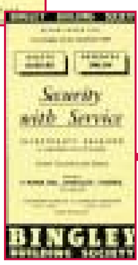
Our major mortgage product is buy-to-let, providing loans to individuals who wish to invest in UK property, enabling them to become landlords and providing a good supply of high quality accommodation for those wishing to rent, rather than buy, their home.

Bradford & Bingley time line

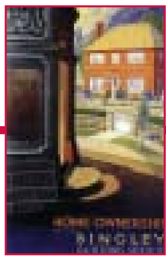


1851

Bradford Equitable Building Society established



Bingley Building Society established



1922

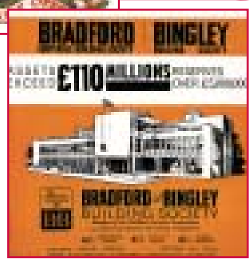
Assets in Bingley Building Society reached £1.1m. Bingley booming post-war, population now 20,000 with 350 houses built between 1920-25

1951

Bradford Equitable celebrates its centenary. Despite a local recession in the textile trade, the Society was well placed to ride out the slump with assets of £22m

1964

Bradford's £56m assets and 23 branches merged with Bingley's £46m assets and 29 branches



The newly formed Society proclaimed its merger in an advert in The Building Societies Gazette

197
retail branches

140
branch-type agencies

We also offer self-cert loans for individuals who have more complex income streams, including the self-employed, those with more than one job and those with significant bonus income.

Our other products include lifetime mortgages which enable homeowners over 60 with significant equity in their property to release some of that equity to provide income or a lump sum.

The vast majority of our specialist products are sold through mortgage intermediaries under the Mortgage Express brand. Additionally, a range of Bradford & Bingley branded mortgage products are available through our branches and through our telephony and online distribution channels.

In addition, we offer a wide choice of financial services from a range of providers, including general insurance, wealth, protection and personal loan products.

We don't offer current accounts, and offer personal loans and credit cards through third parties only.

1968
Bradford & Bingley's first computer installed ready for the gigantic task of transferring the ledger ready for decimalisation in 1971

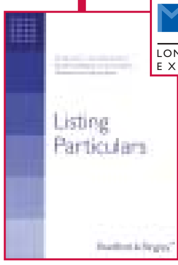
1969
Bradford & Bingley campaigned for building societies to be included in the new SAYE scheme, generating 8,500 new accounts in the first 3 months

1983
New Acorn children's account launched to fill a gap in our product range. In first 6 weeks, 14,000 accounts were opened

1986
Bradford & Bingley issued its first £100m Eurobond floating rate note as its first venture into the wholesale funding market

1987
mortgage express

Acquired Mortgage Express, bringing specialist lending market expertise to the Group



LISTED ON MAIN MARKET LONDON STOCK EXCHANGE

2000
After 149 years as a mutual building society, Bradford & Bingley converted to plc status and listed on the London Stock Exchange

Directors' report

Chairman and Chief Executive's introduction

Introduction

2007 proved to be an eventful and difficult year for the banking sector.

Despite the turmoil in the financial markets in the second half of the year, Bradford & Bingley's underlying business progressed satisfactorily with underlying profit before tax of £351.6m, gaining by some 5%.

The disappointment of the year has been the write-downs and impairments, caused by the manifesting of the liquidity crunch, that have been made against a very small proportion of our Treasury assets. Largely because of this, our statutory profit before tax was reduced to £126.0m.

The Group's conservatism and diversity of funding, combined with our policy to prefund our new business pipeline and our decision to dispose of non-core mortgage portfolios, meant that we weathered the much publicised liquidity problems in the financial markets well.

Underlying trading

Despite the diversion caused by market events, and as a direct result of the fortitude of our colleagues throughout the Group, we achieved a great amount during the year. We grew underlying profit before tax by 5% to £351.6m (2006: £335.9m) and underlying earnings per share increased by 6% to 40.2 pence (2006: 38.1 pence). Statutory profit before tax was £126.0m (2006: £246.7m) and earnings per share 14.9 pence (2006: 28.2 pence). The difference between underlying and statutory profits arises due to the exclusion of certain strategic, external and fair value items from underlying profits. These are set out in the Income Statement table.

For more information on financial performance see pages → 12-15

We made good progress against our objective of growing residential lending, adding a record £8.3bn to our balances, an increase of 27%, to take our total residential balances at the year end to £39.4bn.

The savings business made an excellent contribution during the year, with an additional £1.6bn being raised through our traditional branch network. Retail Savings are a very valuable part of the business, attracting new customers to the Group and providing a stable source of funding. Total retail savings deposits were £21.0bn (2006: £19.7bn) and at the end of the year, total customer deposits of £24.2bn funded 60% of customer loans (2006: 61%).

The condition of our lending book is very important to us and we continue to have great belief in the quality and prospects for buy-to-let lending. Tenant demand remains very strong and is driven by robust fundamentals. We took the decision early in 2007 to reduce our appetite for self-cert lending to preserve business quality. We have not relaxed our credit criteria across any of our products and have focused on higher quality loans, using risk-based pricing to ensure we cover any incremental risk with a higher price. The credit performance of all our portfolios has been in line with expectations. Arrears levels have increased during the year, reflecting rising interest rates in the UK.

Liquidity and funding

We have been pleased with the way we dealt with the extreme liquidity problems which emerged in the wholesale markets in the second half of 2007.

In general terms, we were well placed for such difficulties. We had been careful to retain our conservative approach to our funding and, in particular, had continued to invest in our branch network and build up the amount of our retail deposits. We had also pursued the policy of prefunding our net new lending and of holding sufficient liquidity for at least four months without recourse to wholesale money markets.

In response to the unfolding liquidity crunch, we took a number of steps to reduce our funding needs. We increased our mortgage pricing to contain volumes and protect margins; raised our savings pricing to attract additional customer deposits; reduced the level of mortgage portfolio acquisitions; and increased our focus on lower risk lending. For many years we have worked hard at diversifying our funding base and building strong relationships. This proved very beneficial when we raised £2.5bn in private funding transactions in September and October when the public wholesale markets were effectively closed.

Year at a glance

February

Announced 2006 results with underlying profit before tax up 8% to £335.9m, with record gross and net lending and record pipeline of new mortgage applications

May

Completed a securitisation of £2.5bn equivalent in Euros, Sterling and US Dollars from the Aire Valley Mastertrust

Achieved £20bn of buy-to-let lending balances

Issued covered bond of £1.7bn equivalent in Euros and Swiss Francs

June

Relaunched our full status residential lending proposition through mortgage intermediaries, targeting niche segments of the market to achieve higher margins

We made good progress against our objective of growing residential lending, adding a record £8.3bn to our balances, an increase of 27%

At the time of these results, we had made good progress towards agreeing a range of secured standby facilities with our key relationship banks, at sensible margins, to take advantage of any particularly attractive growth opportunities.

In April 2007, the Board took the strategic decision to sell some commercial lending and housing association mortgage assets in order to focus on the higher-margin, high growth, specialist mortgage market. Market events protracted the sales process but we were pleased to complete the disposal in November 2007 of £4.0bn of loans for a net consideration £44.7m below book value. In addition, £13.3m of transaction and restructuring costs were incurred.

Impairment of treasury assets

In common with other banks and institutions, we have invested a small proportion of our assets in slightly higher yielding and more complex instruments. At the time of our pre-close statement, the Group held £125m of investments in structured investment vehicles ('SIVs'), and a further £140m holding in collateralised debt obligations ('CDOs') which have an element of exposure to the US sub-prime market. Of this CDO holding, including synthetic CDOs, £72m is the specific exposure to the US sub-prime mortgage market. Until the last quarter of 2007, no payment problems and no credit concerns had been encountered by these assets.

In the light of the recent problems with such assets, we have undertaken a careful analysis in order to identify those whose value has been permanently impaired. To our disappointment, we have concluded that £64.2m of our SIVs and £30.2m of our CDOs are impaired, and have charged these amounts to our Income Statement.

Fair value accounting

Under International Financial Reporting Standards introduced in 2005, for certain assets which include a derivative as part of their structure, the fair value change of that derivative is required to be shown in the Income Statement. Such changes on our portfolio of synthetic CDOs amount to £49.7m. It is important to emphasise that all these assets continue to perform and this change in fair value may not be permanent.

In addition, the hedging of fixed rate mortgage and savings, using interest rate swaps to remove the economic risk, creates a small amount of fair value movement described as hedge ineffectiveness. This amounted to a charge of £23.5m in 2007 (2006: £0.3m income).

Capital and dividend

We initiated a share buy-back in July 2007 in a move to improve the structure of our capital by changing the proportions of equity and interest bearing tier 1 capital on our balance sheet. As market conditions deteriorated it made sense to suspend our buy-back programme until greater stability returns to the capital markets. We will continue to review the amount and structure of our capital in the context of our strategy to grow our lending and market conditions. Our tier 1 ratio is improved at 8.6% (2006: 7.6%).

The Board is pleased to propose a final dividend of 14.3 pence per share (2006: 13.4 pence) for payment on 2 May 2008 to shareholders on the register as at 25 March 2008. If approved, the full year dividend for 2007 will be 21.0 pence per share (2006: 20.0 pence), an increase of 5%, reflecting our underlying profit growth.

People

The Board has been extremely impressed with Bradford & Bingley's employees during 2007. Many areas of the Group experienced testing times during the year, particularly our branches and Savings' deposit operations where a very high level of transactions took place. Their commitment and enthusiasm was critical and much appreciated by the Board. We are very proud of our culture and values at Bradford & Bingley and it is this collective spirit and sense of belonging that has enabled our people to work together very effectively in 2007, in the face of extremely challenging market conditions. The Board would like to thank Sir George Cox who retired at the end of 2007, for his advice and service over the past seven years.

Outlook

It is widely anticipated that the economic conditions for the year ahead will be difficult and that the residential housing market will be adversely affected, despite the recent cuts in interest rates. In these circumstances we would expect arrears to eventually rise.

However, in our core buy-to-let lending, we see that rents are continuing to rise and that tenant demand remains very strong, with recent surveys of private property investors showing that they remain committed to maintaining or expanding their portfolios. Within our specialist markets, some competitive pressures have eased and we will seek the opportunity to rebuild our margins to offset the increased costs of funding whilst maintaining our overall credit quality.

The wholesale financial markets may be subject to further shocks and consequent turbulence and we will continue to exercise great caution in our approach to both funding and liquidity. The rate at which we can grow will depend on the rate at which we can fund the business both through our retail savings deposits and via the wholesale markets. Both of these have shown strong growth in the first few weeks of this year.

The Board believes Bradford & Bingley has the brand, the market positioning, the expertise and the policies in place to respond well to these conditions.

July

Announced half year results with underlying profit before tax up 11% to £181.5m and residential new net lending up 92% to 4.5bn with residential lending balances up 14% to 35.6bn

October

A total of £2.5bn raised from wholesale markets since liquidity crisis hit in August via privately placed securitisation, covered bonds and other structured transactions

November

Launched ASDA Internet Saver, an exciting venture with one of the UK's leading retailers

Completed the sale of our commercial lending and housing association mortgage portfolios for £4.0bn, following a review of the growth potential and capital utilisation of these assets

Directors' report
Business review

The Directors have pleasure in presenting their Report on the Group for the year ended 31 December 2007.

Our strategy

Bradford & Bingley's strategy is to establish leading positions in sectors of the UK mortgage market that offer superior long-term potential for growth and profitability, enabling the Group to provide attractive returns to shareholders.

We are competing in attractive markets

We have chosen to compete in markets that have attractive fundamentals. Our core markets (buy-to-let, self-cert and other niche products) each offer good risk-adjusted returns. These products are more complex than mainstream mortgages and the additional expertise required to manufacture and distribute these loans provides the basis for our competitive advantage.

Our chosen markets continue to grow, underpinned by long-term shifts in UK consumer demographics.

The buy-to-let market has two key drivers:
- the continued growth of the private rental sector; and
- the relatively low penetration of buy-to-let loans within this market.

Several factors support the continued strong demand for rental properties, including increased participation in further education, greater labour force mobility, relatively high UK immigration levels, and continuing reductions in average household size. As a result, the private rental sector is forecast to experience growth for at least the next decade, creating a significant opportunity for buy-to-let lending.

Self-cert lending is lending to prime customers with non-standard employment. Growth in this market is supported by strong demographics: steady levels of self-employment, entrepreneurial-based earnings and borrowers with multiple sources of income. We have continued to improve customer choice in this area, creating better value products available to a wider range of people. Whilst we remain comfortable with our participation in this market, during 2007 we have tightened lending criteria and increased pricing in order to contain volumes.

We also selectively compete in other areas of the mortgage market that meet our requirements for risk-adjusted returns, offering products that satisfy specific customer requirements.

As one example, lifetime mortgage lending is currently a small market, but has the potential for significant growth. Housing equity is a very significant, and currently under-utilised, asset in retirement. Our lifetime mortgage products make it possible for customers to make use of this asset without the need to sell their home.

We are experts in specialist mortgage lending

In each of our markets we are creating lasting sources of competitive advantage that will make us the leading provider of specialist mortgage products. These sources of advantage extend across our whole business.

Understanding and meeting customer needs

Changing customer needs are driving growth in our core lending markets. We have been offering specialist lending products for many years and our understanding of customers, together with our skills and experience in product design and underwriting, are core strengths of the business.

During 2007, we continued to make significant investments in our product capabilities by further investing in people, systems and infrastructure. This includes extending the product design teams, credit analysis and modelling and customer information that will allow us to stay at the cutting edge of product development in our chosen markets.

Specialists in mortgage distribution

The majority of our new business is distributed through mortgage intermediaries under our Mortgage Express brand. We have a long established record of driving mortgage origination growth through this channel. Throughout 2007, we have made significant improvements in our intermediary service proposition which will further enhance our position as one of the industry's leading intermediary lenders.

In addition to organic mortgage origination, during 2007 we continued to acquire prime mortgage portfolios under agreements with GMAC-RFC and Kensington Mortgages. While this activity slowed during the second half of the year, it remains a valuable alternative distribution channel for us.

Strong, diversified funding base

Diversified funding, including a strong retail savings business, has been a key component of Bradford & Bingley's strategy for many years. The second half of 2007 demonstrated the importance of this approach: we remained able to fund the business in what have been very challenging market conditions.

Unlike many lenders active in our chosen markets, a large proportion of our funding comes from customer deposits, which we distribute through our branch network and via our online, telephone and offshore channels. These deposits provide access to safe and stable funding at an average cost that is below wholesale rates.

A particular highlight for 2007 has been our joint-venture with ASDA which enables us to reach some 11 million ASDA customers with competitive products, providing significant further growth opportunities for our savings business. Indeed, savings market development will continue to be a key strategic theme for Bradford & Bingley for 2008 and beyond as we explore further new product segments and distribution channels. Our funding platform received a significant test during the second half of 2007 and our ability to raise £2.5bn from private transactions in a six week period (when the wholesale markets were effectively closed) is testament to the skill and expertise of our wholesale market operations.

Diversified funding, including a strong retail savings business, has been a key component of Bradford & Bingley's strategy for many years.

Managing the principal risks to our strategy

The Group is exposed to a number of risks arising from the nature of its business and the environment in which we operate. The most significant risk faced by the Group, and any organisation, is ensuring the strategy adopted is appropriate to the circumstances in which we operate. In order to manage this risk, one executive director has specific responsibility for matters of medium term strategic direction, including the forecast for our economic and market environment. The Group considers the key environmental factors affecting its strategy to be the strength and prospects for the UK economy including housing and mortgage markets, unemployment levels and interest rates. The Board devotes at least two meetings per annum to the consideration of strategic matters.

For more information on corporate governance see pages → 25-27

The implementation of the Group's strategy exposes the business to credit risk, financial risk (including market and liquidity) and operational risk. These risks are managed by a comprehensive framework of management committees and risk management specialists with clear roles and responsibilities.

Credit risk is the possibility that loans made by the Group, to individual customers in the form of mortgages and to other corporate institutions, will not be repaid when they fall due. Prudent underwriting policies and analytical reviews are applied to credit decision making to assess the likelihood that the Group could suffer loss as a function of its lending. Pricing levels are established to take this into account. In addition, limits are applied to differing types and classes of loan to ensure that risk is not too concentrated in any one area.

Financial risk, such as that arising from changes to interest and foreign currency rates, are managed by our Treasury function. They operate under a series of policies and limits to ensure the overall exposure is managed within agreed tolerance levels.

The risk that the Group cannot raise sufficient funds in order to repay its obligations as they fall due is known as liquidity risk. The Group's approach is to maintain a diverse range of sources of funding so as not to become dependent on any single market or route of supply. Furthermore, we adopt a policy of putting funding in place prior to committing to new lending obligations. Our funding and cashflow management activities are governed by a liquidity and funding policy that establishes minimum levels of available cash, or assets that can be converted into cash, in a short time period, in the event of the need to repay loans or provide funds to our depositors.

The Group is exposed to a number of operational risks that may arise in the event that processes fail to function as intended. The possibility of these risks resulting in loss is managed by the adoption of detailed controls across all functions of the business. These controls are set out in a series of Board policy documents and are implemented by the executive management of the Group.

For more information on risk management see pages → 18-21

Buy-to-let

Product overview

Buy-to-let loans are no different from other residential mortgages in the sense that they are fully secured on residential property. However, the income required to cover mortgage payments is derived from the rent generated by the property rather than the borrower's salary or private income.

Buy-to-let offers customers an opportunity to make a leveraged investment in property. Typically the mortgage can be up to 85% of the value of the property and rental income is required to exceed mortgage payments (usually by 25%).

For lenders, buy-to-let offers superior risk-adjusted returns. There is a margin premium over standard residential mortgages; arrears rates and losses are broadly comparable.

Drivers of demand

There is considerable room for further growth with increasing demand for rented accommodation and the attractiveness of buy-to-let as an effective means of financing investment in rental property. We conduct regular surveys of buy-to-let landlords and in October 2007 a high proportion (86%) intended to increase or maintain their investment in rental property.

Market and competition

Mortgage Express, our intermediary lending business, was a pioneer of the buy-to-let product in the UK and now, over a decade later, we are still the leading buy-to-let lender in the UK.

There has been substantial growth in the UK's buy-to-let market, particularly over the last five years. At the end of 2007, there were over 1 million buy-to-let loans outstanding, worth around £120bn, representing just over 10% of the total mortgages in the UK.

Directors' report
Business review
Our strategy continued

Self-cert

Product overview
Self-cert mortgages are designed to meet the needs of customers who do not have a conventional, single source of income required on a standard mortgage application. This may be because they are self-employed, have irregular, commission-based income or multiple sources of income. Although we still require self-cert applicants to state their income and carry out a standard affordability assessment, our underwriting relies more heavily on the credit search and other forms of automated checking. As part of this process a sense check is carried out in order to ensure that the stated income is consistent with the applicant's age, occupation, location and time in employment (or self-employment). Self-cert lending is higher risk than standard lending, however the combination of rigorous underwriting and premium pricing ensures that risk-adjusted returns are better than those available in the standard market.

Drivers of demand
The foundations remain strong. Growth in the self-cert market in the UK has been driven by changing working patterns with increasing numbers of people going into business for themselves – there are now four million self-employed in the UK. We have also seen considerable growth amongst employed applicants who have additional income from a second job or investment and want to include this income in their main mortgage application. This type of mortgage is becoming more commonplace due to changes in working patterns and earnings.

Market and competition
The self-cert market has become increasingly sophisticated in the last two years and there are now broad ranges of products catering for the specific needs of these customers. In particular, the advent of regulation has increased confidence in the processes surrounding the sale of self-cert mortgages which has led to growth both in terms of lenders offering self-cert and intermediaries distributing the product. As the product becomes more mainstream, we expect to see increasingly innovative solutions designed to address the specific needs of these customers. Although a number of new lenders have entered the self-cert market over the last two years, their impact on the market has been limited.

Other specialist markets

The UK residential mortgage market is becoming increasingly diverse. Consumers have a growing range of specialist needs, which are not satisfied by the traditional mortgage offering.

Previously accepted views of house purchasers, and what they need from their mortgages, are changing. Young people and first-time buyers are turning to a variety of new options to establish themselves in a home, such as, seeking help from family or pooling their financial resources with friends. Equally, sectors of the market such as remortgagers and home movers can no longer be viewed as homogeneous groups served by 'one size fits all' solutions, meaning that advice and innovative product solutions are becoming more important.

Changes in society are generating opportunities to develop unique product propositions. There is a continuing trend towards one-person households and a large number of house transactions result from some form of relationship breakdown. In addition, an increasing number of people are coming to the UK to work or study. Many want to buy a property here, as a permanent base or as an investment. Many people also see the equity in their property as part of their retirement provision. Furthermore Bradford & Bingley research suggests that 58% of retired people would prefer to stay in their home, which is leading to an increased focus on equity release mortgages.

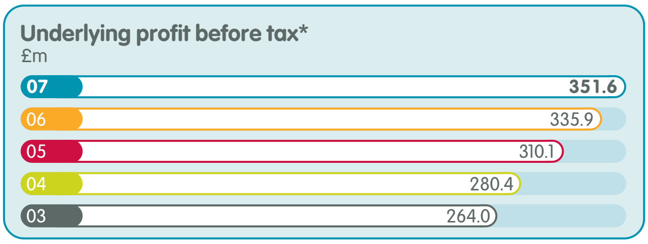
With our existing skills and infrastructure, Bradford & Bingley is well placed to take advantage of these trends. We have mortgages for niche markets including our Lifetime (equity release) mortgage range.

Directors' report
Business review

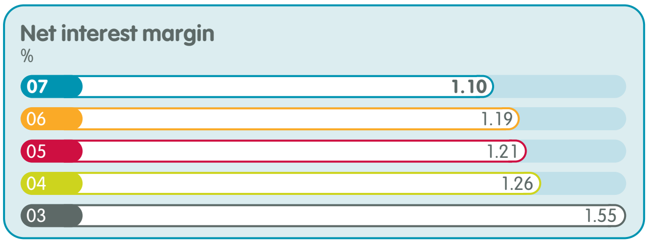
We believe that these key performance indicators are significant in managing the challenges we face and demonstrate how the business is performing and developing.

Key performance indicators

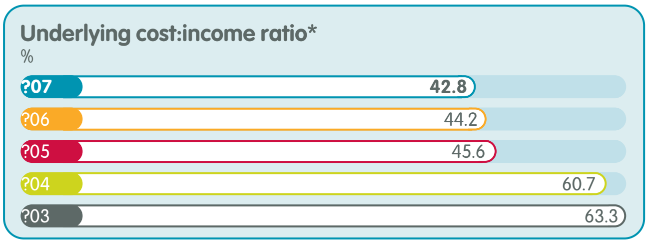
Financial performance



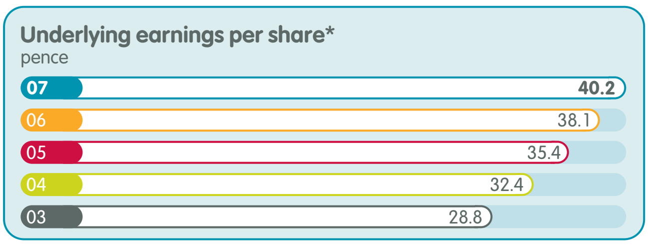
Improvements in this measure demonstrate successful delivery of our strategy. The measure identifies the amount of income after expenditure that the Group has earned for its shareholders during the year.



Measures the difference between the interest rate we earn on our assets, loans to customers and other banks, and the interest rate we pay to our savers and on funding raised in the wholesale markets. Net interest is a major component of profit and is monitored closely as it is a strong guide to our profitability.



The efficiency of the Group and ability to manage expenditure below the level of income is important. This ratio shows underlying costs as a proportion of our income.



This shows the level of income available to each of our issued shares after deducting underlying expenses and tax costs. This ratio is a key factor in determining the value of shares and, in aggregate, the value of the Group.

* A reconciliation of underlying profit before tax to the statutory measure profit before tax is provided in the summary income table on page 16.
Figures relating to 2003 are on a UK GAAP basis and 2004-7 are on an IFRS basis.

Directors' report
Business review
Key performance indicators continued

Underlying return on equity*

This measure is frequently used by investors and analysts to assess the effectiveness of the business in generating earnings. It is calculated by taking the Group's underlying profit after tax, expressed as a proportion of the average shareholder equity deployed in the business during the year, to earn that return.

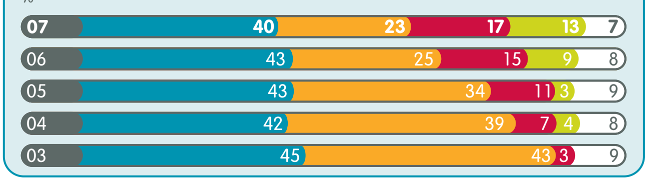
Tier 1 capital ratio

Capital is essential to a bank as protection against the cost of unforeseen events and, as such, ensures we are able to provide a secure home for our savings deposits. Therefore, the Board closely monitors the amount of capital available. The Financial Services Authority, our regulator, also uses the amount of available capital as a key determinant of the capacity of a bank to operate legitimately. "Tier 1" is the highest form of capital and must be at least half of the total capital of a bank.

Indexed loan-to-value of total portfolio

This ratio is important as it gives comfort on the level of equity in the properties owned by our customers as security for our mortgage portfolio. It represents, across our whole mortgage portfolio, the average value of the mortgage outstanding on each property, compared to an estimate of the property's value. This estimate takes into account regional property inflation statistics, from the time of loan origination to the end of the year shown.

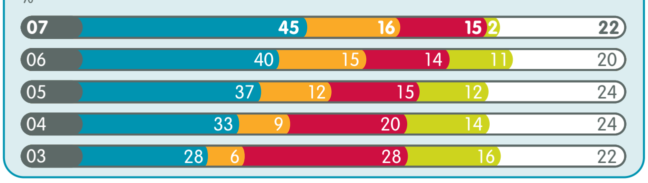
Funding mix



We raise finance from a number of different sources to enable us to provide mortgages. It is important that these sources are diversified and varied in order to minimise the costs and the risk of over-dependence on any one source. This measure shows the type and amounts of funding relative to each other.

Retail Wholesale Securitised Covered Bond Capital/Other

Asset mix



Different types of asset have differing risk and margin characteristics. We review the proportions of these different assets to ensure the balance sheet remains strong and sustainable.

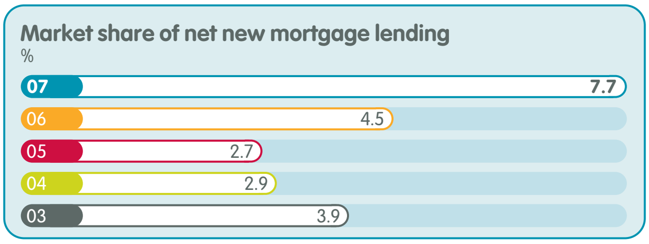
Buy-to-Let Self-cert Other residential
Commercial and Housing Association Wholesale/Other

* A reconciliation of underlying profit before tax to the statutory measure profit before tax is provided in the summary income table on page 16. Figures relating to 2003 are on a UK GAAP basis and 2004-7 are on an IFRS basis.

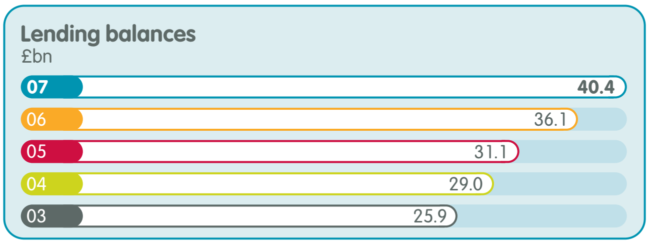
£351.6m
Underlying profit before tax increased by 5%

42.8%
Underlying cost:income ratio improved

£40.4bn
12% increase in balances generated by record new lending



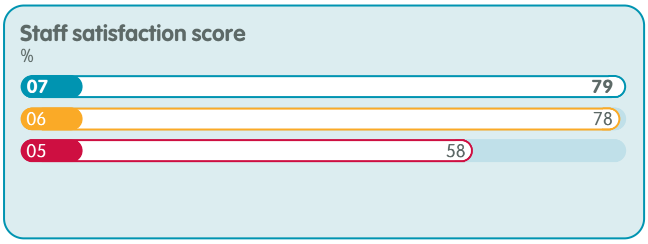
This measure is the level of our net new mortgage lending compared to the whole market during the year. Net lending is very important as it measures the increase in size of the lending balances, which in turn is one of the key drivers of our income.



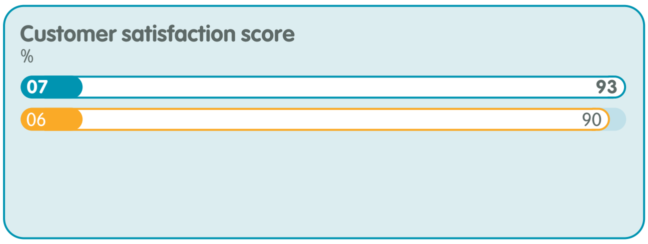
The total amount of lending balances outstanding at the end of the year is important as increases in lending balances generate increases in income.

Retail savings balances form an important part of how we fund the business, enabling us to provide mortgages to our customers. This measure shows total savings balances at the end of the year. These balances are generated through our savings products which are distributed via our retail, online, telephone, and offshore channels, and in partnership with other organisations.

Non-financial measures



The morale and motivation of our people is vitally important to the success of the Group. We regularly undertake surveys to measure these factors. The findings of these surveys are used to identify improvements to the workplace and the environment in which our people work.



We regularly ask our customers, by survey as well as through other means, to express their satisfaction with our products and services. The results of the surveys are used to identify ways in which we can improve our proposition to our customers, generating better value for them and shareholders alike.

For additional non-financial measures see pages 28-32

Directors' report

Business review

Our business focus, conservative risk position and strong values have enabled us to grow our underlying business in an exceptionally challenging year.

Our 2007 performance

Summary

Underlying profit increased by 5% to £351.6m (2006: £335.9m). Group statutory profit was lower at £126.0m (2006: £246.7m). The increase in underlying profit reflects the resilience of our business and our clear strategic focus in a particularly turbulent year. The liquidity squeeze that affected all banks in 2007 had a marked impact on our statutory results. However, Bradford & Bingley has delivered good underlying results in these very difficult conditions.

The underlying business performed very well, despite the distractions of the wider market. We grew our residential lending balances by 27% to £39.4bn (2006: £31.1bn), without increasing our risk appetite, and increased savings balances by 7% to £21.0bn (2006: £19.7bn), continuing our strong focus on retail savings deposits.

A reconciliation between underlying and statutory profit is shown in the adjoining table.

Underlying performance

Throughout the year, our balance sheet remained strong with funding in place to support lending balance growth. As a result, the Group's underlying net income increased by 6% to £654.3m (2006: £614.9m). The major component of our income is the net interest derived from our assets after accounting for the cost of financing. In 2007, this amounted to £547.7m, an increase of 7% over the previous year (2006: £510.2m). Non-interest income increased to £106.6m (2006: £104.7m); underlying costs increased by 3% to £280.2m (2006: £271.6m); and the impairment charge for loans was £22.5m (2006: £7.4m).

The total tax charge in 2007 was £32.8m (2006: £69.0m) representing an underlying effective tax rate of 28.6% (2006: 28.5%). As a result statutory profit after tax for the year was £93.2m (2006: £177.7m).

On an underlying basis, earnings per share increased by 6% to 40.2 pence (2006: 38.1 pence) and return on equity increased to 19.1% (2006: 17.4%). The basic earnings per share for 2007 was 14.9 pence (2006: 28.2 pence).

Income Statement

For the year ended 31 December	2007 £m	2006 £m
Net interest income	**547.7**	510.2
Non-interest income	**106.6**	104.7
Underlying net income	**654.3**	614.9
Fair value movements	**(49.7)**	(0.1)
Hedge ineffectiveness	**(23.5)**	0.3
Net income	**581.1**	615.1
Administrative expenses		
- Underlying	**(280.2)**	(271.6)
- Compensation	**-**	(89.4)
Loan impairment	**(22.5)**	(7.4)
Investment impairment	**(94.4)**	-
Loss on sale of assets	**(58.0)**	-
Profit before taxation	**126.0**	246.7
Fair value movements	**49.7**	0.1
Hedge ineffectiveness	**23.5**	(0.3)
Compensation	**-**	89.4
Investment impairment	**94.4**	-
Loss on sale of assets	**58.0**	-
Underlying profit before taxation	**351.6**	335.9

On 29 November 2007, the Group issued a trading statement stating, "we expect underlying profit before tax for the full year 2007 to be in line with the current market consensus", and that, "the range of analysts forecast is from £305.0m to £374.8m". The comparable reported profit figure is the Group's underlying profit of £351.6m, and falls within this range.

Net interest income

The Group's net interest income increased by 7% to £547.7m (2006: £510.2m) driven by an increase in interest bearing assets of 16% to £49.7bn (2006: £42.7bn). Underpinning this increase in interest bearing assets is strong growth in our mortgage lending activities, delivering a 27% increase in mortgage balances, offset by the impact of asset sales.

Full year net interest margin declined by 9 basis points to 1.10% (2006: 1.19%) in line with our expectations and previous guidance. We have increased the pricing on new mortgages originated in the second half of the year, compensating for the higher base rate and relevant swap costs and margins have been preserved. The main reason for the decline in net interest margin continues to be increased funding costs due to new funds being more expensive than existing retail deposits and wholesale funds. We expect the trend of a growing balance sheet and higher marginal funding costs to continue, albeit at a slower rate, given the more constrained environment. We have adopted a policy of holding a larger proportion of our liquidity in higher quality, but lower yielding instruments, which also had a small negative impact on net interest margin in 2007 and this will continue in 2008. The 39 basis point increase in the gross yield on average interest earning assets to 5.96% (2006: 5.57%) was lower than the increase in base rate, which averaged 5.51% (2006: 4.64%). These do not move in line because two thirds of our residential balances are fixed rate and our policy is to only invest in higher quality wholesale assets at lower yields.

Average interest-bearing liabilities increased by 17% to £47.9bn (2006: £41.1bn). The average cost of liabilities was up 50 basis points to 5.05% (2006: 4.55%). This increase primarily reflects the changing mix of funding.

Net interest income

For the year ended 31 December	2007 £m	2006 £m
Net interest income	**547.7**	510.2
Average balances		
Interest-earning assets ('IEA')	**49,743**	42,692
Financed by:		
Interest-bearing liabilities	**47,904**	41,122
Interest-free liabilities	**1,839**	1,570
	%	%
Average rates		
Gross yield on average IEA	**5.96**	5.57
Cost of interest-bearing liabilities	**(5.05)**	(4.55)
Interest spread	**0.91**	1.02
Interest-free liabilities	**0.19**	0.17
Net interest margin on average IEA	**1.10**	1.19
Average bank base rate	**5.51**	4.64
Average 3 month LIBOR	**6.00**	4.84
Average 3 year swap rate	**5.81**	5.07

Non-interest income
Non-interest income increased to £106.6m (2006: £104.7m). During 2006, the Group switched focus to its specialist mortgage lending business and, in November of that year, we ended mortgage broking services. Therefore, in 2007, broking fees derived from mortgage sales in prior years ceased as a revenue stream and were replaced by interest income on loans sold through our branches. Consequently, the net fee income earned from our mortgage book reduced by £5.9m to £5.0m (2006: £10.9m).

We have maintained our relationship, established in 2004, with Legal & General to provide financial advice and product investment within our branches. Sales volumes have been in line with our plans and income from this area of the business remained stable at £30.8m (2006: £31.5m) despite a reduced performance in the last quarter of the year due to market uncertainty. Income from general insurance continues to make progress, increasing to £19.9m (2006: £19.4m).

Income derived from administration of loans fell to £26.2m (2006: £28.9m) following reductions in the level of mortgage administration fees charged, in line with general market price movements.

Non-interest income

For the year ended 31 December	2007 £m	2006 £m
Fee and commission income	**81.7**	91.7
Realised gains less losses on financial instruments	**6.5**	2.1
Other operating income	**9.6**	5.2
Non-operating income	**8.8**	5.7
Underlying income	**106.6**	104.7
Analysed as:		
Mortgage broking	**5.0**	10.9
Investment	**30.8**	31.5
General insurance	**19.9**	19.4
Other financial services	**2.0**	2.4
Total financial services	**57.7**	64.2
Lending related income	**26.2**	28.9
Income from sale and leaseback transactions	**8.8**	5.7
Other	**7.4**	3.8
Realised gains less losses on financial instruments	**6.5**	2.1
Underlying income	**106.6**	104.7

The Group transferred ownership of a number of our branches under sale and leaseback transactions. The net income from these transactions was £8.8m compared to £5.7m in 2006.

Net income from the sale of financial investments was £6.5m (2006: £2.1m). Gains are made or losses are incurred if debt securities are sold or funding repaid, prior to their contractual maturity. A number of such transactions were completed in the second half of the year realising gains.

Administrative expenses
We continue to manage the rate of our cost growth carefully, whilst investing in key areas to support growth and productivity. Underlying costs increased by 3% to £280.2m (2006: £271.6m), improving the cost:income ratio to 42.8% (2006: 44.2%).

Administrative expenses

For the year ended 31 December	2007 £m	2006 £m
Staff related	**121.0**	118.2
Premises	**20.5**	21.9
Marketing	**19.7**	15.3
Other administrative expenses	**95.3**	98.0
Depreciation and amortisation	**23.7**	18.2
Underlying costs	**280.2**	271.6
Compensation costs	**-**	89.4
Total	**280.2**	361.0

We have increased investment in our people during 2007, spending more on development and training reflected by higher staff costs of £121.0m (2006: £118.2m). We have also further improved the efficiency of our operating process, increasing new mortgage volumes by 27% whilst reducing the total number of people employed by the Group to 3,035 (2006: 3,154).

We invested in the Bradford & Bingley brand with a new television campaign running throughout the year promoting our mortgages. Marketing expenditure was raised to £19.7m (2006: £15.3m). Additional investment in our IT infrastructure, to improve capacity and efficiency led to an increased depreciation charge of £23.7m (2006: £18.2m).

The provision of £89.4m, made in June 2006 to cover the cost of claims for historic endowment and investment product mis-selling, currently stands at £50.7m. The volume of claims received, the proportion of claims upheld and the average compensation per upheld case are all within the assumptions made in estimating the provision. No further provision is required in 2007.

Arrears and loan impairment
During 2007, arrears levels increased. The total number of cases, three months or more in arrears and in possession, has increased to 6,170 (2006: 4,337) amounting to 1.63% (2006: 1.30%) of the total book. This was expected and reflects the increase in the cost of borrowing, as the Bank of England constrained monetary policy in 2006 and 2007 with a series of 25bp rises to the base rate (from 4.5% to 5.75%). We expect some easing in policy in 2008 helping the affordability of mortgage repayments. Reflecting increased arrears and possessions, we have provided £54.8m (2006: £47.8m) for loan impairment.

Our lending policies and underwriting approach continue to be improved to provide the right balance between risk and return. We have made improvements to our analytical capabilities, developing new approaches estimating losses that are consistent with risk measures under the Basel II regime.

As a proportion of balances, the residential impairment allowance was 0.14% (2006: 0.15%). The charge to the Income Statement to account for impairment was £22.5m (2006: £7.4m).

Arrears and possessions

For the year ended 31 December	2007	2006
Arrears over 3 months		
- number of cases	**5,610**	4,015
- % of total cases	**1.48**	1.20
- value (£m)	**731.2**	498.9
- % of book	**1.85**	1.60
Possessions		
- number of cases	**560**	322
- % of total cases	**0.15**	0.10
- value (£m)	**97.0**	52.7
- % of book	**0.25**	0.17
Total		
- number of cases	**6,170**	4,337
- % of total cases	**1.63**	1.30
- value (£m)	**828.2**	551.6
- % of book	**2.10**	1.77
Residential loan impairment allowance		
Impairment allowance	**54.8**	47.8
- % of residential assets	**0.14**	0.15
- % of arrears and possessions	**6.62**	8.56

Directors' report
Business review
Our 2007 performance continued

Taxation
The total tax charge for the year was £32.8m (2006: £69.0m). Based on a statutory profit of £126.0m (2006: £246.7m) this equates to an effective tax rate of 26.0% (2006: 28.0%).

Items excluded from underlying profits
In order to enable stakeholders to obtain a clear view of the ongoing performance of the Group, the Board excludes certain items that are the result of long-term strategic decisions and/or the impacts of unusual and extreme external events and accounting volatility that can have a distorting effect on financial performance in single reporting periods. Profit excluding such items is defined as underlying profit. The items not included in underlying profit are the net loss on sale of commercial and housing association loans, the impairment of wholesale assets, fair value movements and hedge ineffectiveness.

Loss on sale
During 2007, the Board resolved to sell our commercial property and housing association loans. This decision reflects the Group's strategy of focusing on areas of the lending market that offer superior returns and growth, specifically the UK specialist mortgage market. Under two separate transactions announced in November, a total of £4.0bn of assets were sold for a net consideration of £44.7m below book value. In addition, £13.3m of transactional and restructuring costs were incurred. These assets contributed c. £45m profit to the Group in 2007 and following the sale, the Group retains £1,022m of commercial property and housing association loans.

Asset impairment
At the time of our pre-close trading statement, the Group held £125m in structured investment vehicles (SIVs) and a further £140m in collateralised debt obligations (CDOs) of asset backed securities with some exposure to the US sub-prime market.

At the time of the pre-close announcement, at the end of November, one of our CDO investments of £20m had been further downgraded by rating agents. Since then, further information has become available and we have undertaken analysis on all our wholesale assets, including SIVs and CDOs, in order to identify any that we believe may be impaired. To arrive at this conclusion we have considered actions from rating agents, the pricing on bonds in the market (where available) and reports on the underlying security of bonds prepared by their investment managers. There is a very restricted market for these securities with few, if any, recent trades taking place, therefore pricing information cannot be used as the only guide to value. Consequently, we have also modelled the expected out-turn of some of the investments that have been downgraded or suffered a material reduction in pricing to estimate the likely level of recovery. This modelling uses assumptions based on the performance of the security of the collateral of each investment, the reports from the investment managers and the general liquidity conditions in the market. As a result of this analysis, we have concluded that £64.2m of our SIVs and £30.2m of CDOs are impaired, and accordingly we have made charges to the income statement to reflect these amounts.

Fair value of financial instruments
The volatility of interest rates and asset prices has brought changes to accounting for financial instruments, implemented under the transition to International Financial Reporting Standards. Where in previous periods these movements have been immaterial, in 2007, the Group's Income Statement contains a number of fair value movements that are more significant. These fair value movements introduce volatility to reported profits, and are therefore not included in the underlying profit of the Group.

Hedge ineffectiveness represents how we account for fair value differences in future cash flows of hedged items. The majority of these items are fixed rate mortgage and savings related swaps and from an economic perspective are matched to customer balances. The movement in the fair value of these items in 2007 was £23.5m.

The Group has a number of investments in synthetic CDOs. The treatment of these financial instruments differs from that of our other CDOs, as they contain an embedded derivative. This means they are subject to fair value accounting, with any movement in current value being recorded in the Income Statement. In the current environment, their market price has fallen significantly which has adversely affected their current value by £49.7m. This movement in value has been recorded in the Income Statement. However, it is important to note that our review of these CDOs shows that they continue to perform and are meeting their coupon payments. We will continue to review these assets on a regular basis and any change in their value will be recorded in the Income Statement.

Other fair value movements
All of the Group's remaining wholesale assets are held as available-for-sale with any movements in value being recorded in the balance sheet via the available-for-sale reserve. In addition to the amounts recorded in the Income Statement and explained in the preceding paragraphs the Group has recorded a debit to the balance sheet of £60.4m after tax in respect of the fair value movement on these items.

Balance Sheet
Despite market conditions and relatively slower growth in the second half of the year, the Group's total assets increased by 15% to £52.0bn (2006: £45.4bn), this includes the impact of the sale of commercial property and housing association loans. Gross new mortgage advances were £9.7bn (2006: £7.7bn) and the Group purchased a further £4.3bn (2006: £2.5bn) of mortgage assets. Our share of the net increase in UK mortgages was 7.7%, comfortably exceeding our share of outstanding balances of 3.3%, demonstrating the strength and resilience our business.

The mix of new loans by product, and on our balance sheet, reflects our focus on the specialist areas of the mortgage market and the success of our Mortgage Express brand in building this business. Buy-to-let has continued to be the most significant product representing 55% of new loans (2006: 54%) and 59% of residential balances (2006: 58%).

We have increased wholesale assets to £9.6bn (2006: £8.8bn) in order to build liquidity and insulate the business against wholesale money market uncertainties. During the liquidity crisis, we closely monitored our liquidity position and assessed

Balance Sheet summary

At 31 December	2007 £m	2006 £m
Loans and advances to customers:		
- Residential mortgages	**39,422.3**	31,134.7
- Commercial and other secured loans	**1,022.2**	4,997.0
Wholesale assets	**9,565.0**	8,803.9
Fair value adjustments on portfolio hedging	**(53.8)**	(70.4)
Derivative financial instruments	**1,175.4**	291.0
Fixed and other assets	**853.5**	198.0
Total assets	**51,984.6**	45,354.2
Retail deposits	**20,988.0**	19,674.6
Non-retail deposits	**27,547.1**	21,880.1
Fair value adjustments on portfolio hedging	**(5.9)**	-
Derivative financial instruments	**498.6**	493.4
Other liabilities	**330.7**	474.0
Interest bearing capital	**1,415.3**	1,412.2
Equity	**1210.8**	1,419.9
Total liabilities and equity	**51,984.6**	45,354.2

Product mix (residential lending)

for the 12 months to 31 December 2007	New Mortgages £m	%
Buy-to-let	7,712	55
Self-cert	3,319	24
Lifetime	143	1
Other	2,867	20
Total	14,041	100

At 31 December 2007	Balances £m	%
Buy-to-let	23,133	59
Self-cert	8,540	22
Lifetime	780	2
Other	6,969	17
Total	39,422	100

this against emerging and potentially extreme funding conditions. Consequently, we maintained our liquidity levels well above our own internal liquidity policy limit and those established by our regulator, the FSA. Therefore, the rate of increase in mortgages in the latter part of the year was deliberately curtailed. We continue with our conservative balance sheet management approach of identifying and securing funding sources prior to committing to new lending.

Total funding increased, corresponding to the growth in asset balances, and amounted to £48.5bn (2006: £41.6bn). Retail deposits have performed strongly and increased by £1.3bn (2006: £2.0bn) to £21.0bn (2006: £19.7bn) and make up 40% (2006: 43%) of total liabilities. Given the position of wholesale markets, we successfully quickened the pace of retail deposit growth during the second half of the year. Despite market conditions, we also raised significant new finance in secured funding markets with our securitised and covered bond programmes issuing £3.7bn (2006: £3.4bn) and £2.8bn (2006: £2.7bn) respectively.

The liquidity crisis in wholesale markets, and the balance growth we achieved in 2007, has placed even greater emphasis on our new funding programmes. We have been active in the retail and wholesale markets. In particular, our wide range of savings products have contributed to our funding needs. The Group aims to have balance sheet diversity, always maintaining a number of available funding sources, even during conditions of market distress. This approach has proved invaluable during 2007 and gives us confidence in the future sustainability of the business.

Capital

A share buy-back began in July 2007 as part of a plan to rebalance the mix of our capital, by changing the proportions of equity and interest bearing tier 1 capital on our balance sheet. As market conditions deteriorated, it became clear that it would be inappropriate to raise interest bearing capital at the extreme pricing levels that developed in the second half of the year. After purchasing 16.75m shares at a cost of £58.6m, we suspended our buy-back programme until greater stability returns. Bradford & Bingley remains very well capitalised with a Tier 1 ratio of 8.6% (2006: 7.6%), and total capital ratio of 15.1% (2006: 13.2%).

The Group continues to operate under the Basel II standardised regime. Work with the FSA on developing an internal-ratings-based approach for our specialist mortgage assets is now proceeding more slowly, reflecting the impact of recent market turmoil on the priorities of banks and regulators.

Capital structure

At 31 December 2007	2007 £m	2006 £m
Share capital and reserves	1,210.8	1,419.9
Adjustments	81.3	(74.4)
Net pension deficit	(4.0)	50.8
Innovative tier 1	148.8	148.8
Total tier 1 capital	1,436.9	1,545.1
Upper tier 2 capital	580.1	583.8
Lower tier 2 capital	647.0	671.7
Total tier 2 capital	1,227.1	1,255.5
Deductions	(146.7)	(97.2)
Total capital	2,517.3	2,703.4
Risk weighted assets	16,655	20,419
Tier 1 ratio (%)	8.6	7.6
Total capital ratio (%)	15.1	13.2

Non-financial measures

Our continuing success is attributable largely to the quality and commitment of our staff. We measure their commitment and satisfaction regularly. It is encouraging to record that our overall measure increased to 79% (2006: 78%), maintaining the high level attained the previous year, despite the turbulence in our industry in 2007.

Other major factors in the success of Bradford & Bingley are our customers, those individuals who select our products and services, and the mortgage intermediaries who introduce the vast majority of our new mortgage customers. We have measured the satisfaction of these key contributors to the Group's success and have refined and improved these measures in 2007.

Directors' report
Business review
Our 2007 performance continued

The Statutory Income Statement and Balance Sheet are summarised in the Directors' Report in order to provide a simpler view of the financial statements, more closely aligned with the presentation used on a day-to-day basis by the Board and management of the Group. In the simplified financial statements, certain items are either grouped together or sub-divided from those presented in the statutory financial statements. Differences of presentation are explained in the diagrams below.

Statutory Income Statement

For the year ended 31 December	2007 £m	2006 £m
Interest receivable and similar income	**2,967.5**	2,383.0
Interest expense and similar charges	**(2,419.8)**	(1,872.8)
Net interest income	**547.7**	510.2
Fee and commission income	**81.7**	91.7
Realised gains less losses on financial instruments	**6.5**	2.1
Fair value movements	**(49.7)**	(0.1)
Hedge ineffectiveness	**(23.5)**	0.3
Other operating income	**9.6**	5.2
Net operating income	**572.3**	609.4
Administrative expenses		
- Ongoing	**(280.2)**	(271.6)
- Compensation	**-**	(89.4)
Loan impairment loss	**(22.5)**	(7.4)
Investment impairment loss	**(94.4)**	-
Non-operating income	**8.8**	5.7
Loss on sale of assets	**(58.0)**	-
Profit before taxation	**126.0**	246.7
Taxation	**(32.8)**	(69.0)
Profit for the financial year	**93.2**	177.7
Attributable to equity shareholders	**93.2**	177.7
Earnings per share		
- Basic	**14.9p**	28.2p
- Diluted	**14.9p**	28.1p

Income Statement

For the year ended 31 December	2007 £m	2006 £m	
Net interest income	**547.7**	510.2	1
Non interest income	**106.6**	104.7	2
Underlying net income	**654.3**	614.9	
Fair value movements	**(49.7)**	(0.1)	3
Hedge ineffectiveness	**(23.5)**	0.3	3
Net income	**581.1**	615.1	
Administrative expenses			
- Underlying	**(280.2)**	(271.6)	4
- Compensation	**-**	(89.4)	5
Loan impairment	**(22.5)**	(7.4)	6
Investment impairment	**(94.4)**	-	7
Loss on sale of assets	**(58.0)**	-	8
Profit before taxation	**126.0**	246.7	
Fair value movements	**49.7**	0.1	3
Hedge ineffectiveness	**23.5**	(0.3)	3
Compensation	**-**	89.4	5
Investment impairment	**94.4**	-	7
Loss on sale of assets	**58.0**	-	8
Underlying profit before taxation	**351.6**	335.9	9

1 The sum of interest received on mortgages, loans and wholesale assets of the Group less the interest cost of funding these loans payable to retail depositors and wholesale investors.
2 Total fees and commissions earned on the sale of financial products, any net gains or losses on the sale of assets.
3 Changes in the value of instruments used to manage risk on our balance sheet and accounting volatility that can have a distorting effect on financial performance in single reporting periods.
4 Total expenditure of the Group on wages and salaries, property leases, other consumable items such as marketing and information technology, depreciation on assets and costs associated with other services purchased.
5 The amount provided in the year to cover the estimated cost of claims for mis-selling relating to the IFA business, which was closed in 2004.
6 The amount charged to allow for any reduction in the value of assets, for example, losses arising when customers fail to repay the interest and balance on their mortgages.
7 Impairment of SIVs and CDOs.
8 The loss on sale of the commercial property and housing association lending books.
9 The net earnings of the business, after satisfying all commitments but before any payment of taxation and the effects of 3, 5, 7 and 8 above.

Statistory Balance Sheet

At 31 December 2007	Group 2007 £m	Group 2006 £m
Assets		
Cash and balances at central banks	**209.2**	202.6
Treasury bills	**185.0**	-
Loans and advances to banks	**2,392.1**	3,301.4
Loans and advances to customers	**40,444.5**	36,131.7
Fair value adjustments on portfolio hedging	**(53.8)**	(70.4)
Debt securities	**6,778.7**	5,299.9
Derivative financial instruments	**1,175.4**	291.0
Prepayments and accrued income	**28.5**	25.0
Other assets	**653.7**	21.3
Deferred tax assets	**23.8**	5.7
Property, plant and equipment	**106.5**	90.8
Intangible assets	**41.0**	55.2
Total assets	**51,984.6**	45,354.2
Liabilities		
Deposits by banks	**2,074.4**	1,512.4
Customer accounts	**24,152.6**	22,201.0
Fair value adjustments on portfolio hedging	**(5.9)**	-
Derivative financial instruments	**498.6**	493.4
Debt securities in issue	**22,308.1**	17,841.3
Other liabilities	**141.2**	115.6
Accruals and deferred income	**84.1**	84.4
Current tax liabilities	**23.7**	96.0
Post-retirement benefit obligations	**22.0**	83.2
Provisions	**59.7**	94.8
Subordinated liabilities	**1,253.7**	1,247.0
Other capital instruments	**161.6**	165.2
Total liabilities	**50,773.8**	43,934.3
Equity		
Capital and reserves attributable to equity holders		
- Share capital	**154.4**	158.6
- Share premium reserve	**4.9**	4.9
- Capital redemption reserve	**29.2**	25.0
- Other reserves	**(122.3)**	19.1
- Retained earnings	**1,144.6**	1,212.3
Total attributable equity	**1,210.8**	1,419.9
Total equity and liabilities	**51,984.6**	45,354.2

Summary Balance Sheet

At 31 December 2007	Group 2007 £m	Group 2006 £m	
Loans and advances to customers:			①
- Residential mortgages	**39,422.3**	31,134.7	②
- Commercial and other secured loans	**1,022.2**	4,997.0	③
Wholesale assets	**9,565.0**	8,803.9	④
Fair value adjustments on portfolio hedging	**(53.8)**	(70.4)	⑤
Derivative financial instruments	**1,175.4**	291.0	⑥
Fixed and other assets	**853.5**	198.0	⑦
Total assets	**51,984.6**	45,354.2	
Retail deposits	**20,988.0**	19,674.6	⑧
Non-retail deposits	**27,547.1**	21,880.1	⑨
Fair value adjustments on portfolio hedging	**(5.9)**	-	⑤
Derivative financial instruments	**498.6**	493.4	⑥
Other liabilities	**330.7**	474.0	⑩
Interest bearing capital	**1,415.3**	1,412.2	⑪
Equity	**1,210.8**	1,419.9	⑫
Total liabilities and equity	**51,984.6**	45,354.2	

① The financial accounting description of loans made by the Group to customers for the purpose of earning interest income.
② Loans made to individual customers secured on residential property.
③ Loans to companies who are in the business of providing commercial property (typically retail, office or industrial).
④ Assets held by our Treasury department providing the Group with the liquidity (readily accessible cash resources) to protect our retail depositors and to enable them to withdraw their funds as and when they require, and assets held as investments to supplement the income earned by the Group on its loans to customers.
⑤ Movement in the value of fixed rate mortgages and savings products as a result of changes in interest rates since the loans were made.
⑥ Derivatives are instruments held by the Group to manage the naturally occurring interest rate and currency exposures that arise in our normal course of business (for example, when we provide fixed interest rate mortgages to customers). The value of the derivative can be positive or negative depending on the asset or liability it is hedging or the movement in interest and foreign currency exchange rates.
⑦ Property and other equipment, such as computers and software, and other assets used by our business.
⑧ Total amount of deposits made in our savings products.
⑨ Amounts borrowed from banks and other sources which in addition to the retail deposits allow us to make loans to customers.
⑩ Other amounts provided to enable us to pay known future commitments as they arise. For example, items such as rents and rates on property, national insurance, tax and pension commitments.
⑪ long-term loans that act as capital, under rules set out by our regulator, the Financial Services Authority. Banks need capital to support the activity of making loans and to provide protection to savings customers.
⑫ The investment of our shareholders in the business and the net profits retained by the Group from previous financial periods.

Directors' report
Business review

The Board is committed to the ongoing sustainability of the business and has established comprehensive control and governance structures to ensure the risks faced by the Group are carefully managed.

Risk management and control

Introduction
Risk is inherent in the Group's business and activities. Our ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in our financial stability, performance, reputation and future success. The principal risks which we face are credit risk, financial risk (including market and liquidity risk) and operational risk. Our approach to risk management is built on formal governance processes and relies on individual responsibility and collective oversight, informed by comprehensive reporting.

The following sections describe our approach to risk management. The first section covers the Group's risk governance structure. The second section explains the way in which we identify and categorise the risks we face and manage objectives and policies for each.

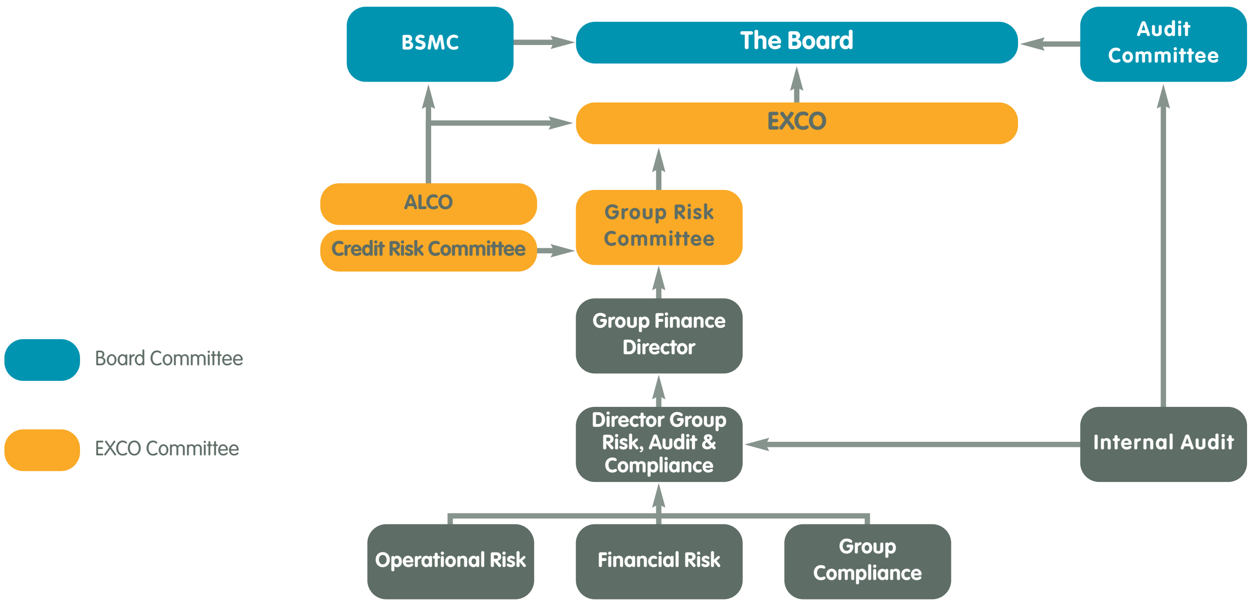
Other factors could also affect the Group's results, including economic factors. Therefore, the risks described below should not be considered to represent all of the potential risks and uncertainties which could impact the Group.

Risk governance
The responsibility for the overall framework of risk governance and management lies with the Board of Directors. The Board is responsible for determining risk strategy, setting the Group's risk appetite and ensuring that risk is monitored and controlled effectively. It is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities. Within that structure, line managers are responsible for the identification, measurement and management of the risks within their areas of responsibility.

In particular, the Residential Lending Credit Risk function, which reports into the Managing Director, Products and Marketing, acts as the credit risk control unit with responsibility for the Group's residential lending credit risk and rating system. Independent challenge and validation is provided by the Group Risk function. The Treasury Finance teams, which report into the Group Finance Director, are responsible for identification, measurement and monitoring of wholesale credit risk, market risk and liquidity risk. Independent monitoring of the risk management framework is provided by risk management specialists based in the Risk, Audit and Compliance functions.

In addition to individual responsibilities for risk management, there is a structure of committees that, under authority delegated by the Board, have formal responsibility for defined aspects of risk management.

The roles and responsibilities of the risk management committees are set out in the following paragraphs. The relationship between these committees and the risk management functions are shown in the diagram below.



The information on pages 18 to 21 forms an integral part of the financial statements

Audit Committee
The Audit Committee is a non-executive committee that supports the Board in carrying out its responsibilities for financial reporting, including accounting policies, internal control and risk assessment. The Audit Committee monitors the ongoing process of the identification, evaluation and management of all significant risks throughout the Group.

Executive Committee ('EXCO')
EXCO is responsible for the executive management of the Group including risk and the application of the Group's risk policies through various committees and through their ex-officio responsibilities. EXCO consists of the Executive Board Directors and the HR Director.

Group Risk Committee ('GRC')
GRC is an executive risk governance committee which supports EXCO in ensuring that the Group's overall risk management framework is effective and that key risks are managed cost effectively and to an acceptable level.

Asset & Liability Management Committee ('ALCO')
ALCO is an executive committee which monitors and manages the structure of the Group balance sheet and agrees strategy and policy adjustment. In addition, ALCO manages the Group's net interest income within the sensitivity limits established by the Board.

Credit Risk Committee ('CRC')
CRC supports EXCO and GRC by advising on the Group's credit risk framework and reviewing, monitoring and recommending on all credit matters relating to credit exposures and credit risk management strategies.

Balance Sheet Management Committee ('BSMC')
The role of BSMC is to oversee Treasury and balance sheet management matters in advance of any recommendation to the Board. This includes:
- consideration and approval of secured and securitised funding transactions and the establishment or renewal of Medium Term Funding Programmes in line with Treasury Policy statements;
- balance sheet issues such as the review of capital management and balance sheet strategies;
- raising of capital and dividend policy; and
- monitoring the effect of these and other initiatives on the Group's credit rating.

Group risk
The Group Risk function comprises Operational Risk and Financial Risk and its role is to:
- develop a Group strategy, policy and framework for risk management, aligned with business requirements;
- provide support to the Group in the implementation of the framework;
- bring together analyses of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practice and carrying out special reviews as directed by GRC and ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

Compliance
The role of Compliance is to:
- provide a focal point to co-ordinate communications and consultations with regulatory authorities;
- achieve high standards of compliance advice and risk-based compliance, according to agreed plans and standards;
- provide an effective compliance advisory and consultative service to the Group;
- carry out reviews of relevant business units, employing quantified risk-based monitoring techniques to assess performance against the relevant rules, guidance, codes of conduct and the Group's internal policies and procedures;
- provide timely and objective reports of findings, agreeing appropriate corrective actions and monitoring implementation;
- oversee the compliance performance of the Group, keeping line management, GRC, the Audit Committee and the Board informed of the state of compliance, measured against objective and published performance standards and indicators, drawing attention to areas of under-performance and improving or worsening trends and provide rapid alert to particular risks or failings; and
- escalate any unremedied compliance failings through line management and if necessary prompt effective enforcement measures.

Internal Audit
We have contracted Ernst & Young to provide internal audit services. However, the management of the Internal Audit function remains firmly with Bradford & Bingley. The role of Internal Audit is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied.

The specific role of Internal Audit is to:
- produce a formal, annual opinion on the adequacy and effectiveness of the control processes to the Audit Committee for submission to the Board. This opinion is based on agreed materiality thresholds, supporting Turnbull requirements;
- report on a quarterly basis to the Board, through the Audit Committee, on the operation of the control processes and management's progress in addressing identified issues;
- report the results of individual audits in the period to the Audit Committee;
- report issues emerging from, and findings of, each audit to relevant management, obtaining their commitment to undertake appropriate remedial action; and
- continually review the effectiveness of the Group's risk profile, placing appropriate reliance on the risk management process to optimise audit work.

Risk categorisation
The Group categorises risk under the following headings:

Credit risk
Credit risk is the potential financial loss caused by a retail customer or wholesale counterparty failing to meet their obligations to us as they become due. This covers all exposures and includes credit risk on guarantees and irrevocable undrawn facilities.

The taking of credit risk in order to earn a return is a central feature of the Group's business. Risks arising from changes in credit quality and the recoverability of loans and amounts, due from counterparties, are inherent across most of the Group's activities. Adverse changes in the credit quality of borrowers or a general deterioration in UK economic conditions could affect the recoverability and value of the Group's assets and therefore its financial performance. As credit risk is the main risk to the Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within the Group's risk appetite. To a lesser degree, the Group is exposed to other forms of credit risk such as those arising from trading and settlement activities where the risk is a consequence of undertaking the activity, rather than a driver for it.

The Group's Credit Risk framework is based on the allocation of the Group's lending into four risk categories. These provide a sufficient level of detail to identify, monitor and manage the overall credit risk profile on a monthly basis. These categories are defined in relation to profitability as follows:
- medium risk: in the event of a markedly adverse economy, high levels of bad debts could result in significantly lower profits or losses being incurred;
- medium/low risk: a markedly adverse economy would cause substantial reductions in profitability, but profits would still be generated;

Directors' report
Business review
Risk management and control continued

- Low risk: only modest reductions in profitability would be recorded even in the event of a markedly adverse economy; and
- Negligible risk: these are loans which have low risk of default and, more importantly, such high levels of security that, even in a markedly adverse environment, it would not be expected that any bad debt loss would be incurred.

The assignment of the loans to the different risk categories is based on an assessment of the relative risk of default and the strength of the underlying security (all retail customer lending being secured). The resulting risk profile is then projected forward based on planned advances, redemptions, seasoning and Board approved limits structured in line with the Group's risk appetite.

Within the Treasury banking book, minimum long-term or short-term credit ratings have been set for all counterparties.

The Group also maintains a structured finance portfolio that primarily consists of investments in asset backed securities ('ABS'). The credit risk is driven by the quality of the underlying securitised assets which, in turn, drives the demand for, and therefore marketability of, the issues. To limit credit risk and concentrations, overall investment in structured investments is capped with separate limits set for the ABS portfolio and other products, including principal rated only notes and Structured Investment Vehicles ('SIVs').

The limits on the amount of the investments portfolio, and the individual types of assets within it have been reduced for 2007 as part of the Group's approach to managing risk.

The Group is firmly committed to the management of credit risk in both its lending and wholesale money market activities. In its core lending activities, the Group employs sophisticated credit scoring, underwriting and fraud detection techniques that support sound credit decision making and work to minimise losses. A proactive approach to the identification and control of loan impairment is maintained in the Residential Lending Credit Risk and Credit Control areas, with challenge and oversight provided by the Group Financial Risk Management function.

Lending policies and limits are reviewed and approved annually by the Board. The CRC ensures that any exposure to credit risk, significant changes in policy, or expansion into new areas of business remain within overall risk exposure levels as agreed by the Board. Authorised credit risk limits for wholesale money market counterparties reflect the size, depth and quality of a counterparty's capital base and, where published, credit ratings assigned by the major credit rating agencies.

In addition to the credit risk governance framework outlined above, the Group takes security for funds advanced and, whilst these are concentrated in the UK, manages the diversification of its portfolios through limits around individual counterparties, types of counterparty, industry and geographic regions.

Market risk
Market risk is the potential adverse change in Group income or Group net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

The most significant form of market risk to which the Group is exposed is interest rate risk. This typically arises from mismatches between the repricing dates of the interest-bearing assets and liabilities on the Group's balance sheet, and from the investment profile of the Group's capital and reserves. Treasury is responsible for managing this exposure within the risk exposure limits set out in the Balance Sheet Management policy, as approved by ALCO and the Board. This policy sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk.

It is ALCO's responsibility to approve strategies for managing market risk exposures and ensure that Treasury implements the strategies so that the exposures are managed within the Group's approved policy limits.

The Group assesses its exposure to interest rate movements using a number of techniques. However, there are two principal methods:
- a static framework that considers the impact on the current balance sheet of an immediate movement of interest rates; and
- a dynamic modelling framework that considers the projected change to both the balance sheet and product (mortgage and savings) rates over the following year under various interest rate scenarios.

The results of these analyses are presented to senior management in order to identify, measure and manage the Group's exposure to interest rate risk. The Group remained within all its interest rate risk exposure limits during the year and preceding year.

Limits are placed on the sensitivity of the Group balance sheet to movements in interest rates. Exposures are reviewed as appropriate by senior management and the Board with a frequency between daily and monthly, related to the granularity of the position. For example, the overall Group balance sheet interest rate risk exposure position is monitored monthly whilst several specific portfolios within the balance sheet are reviewed more frequently on a daily or weekly basis. This reflects the dynamics and materiality of the various portfolios.

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps and interest rate futures contracts. Interest rate swaps are over-the-counter arrangements with highly rated banking counterparties, while futures contracts are transacted through regulated Futures Exchanges. The Group also uses asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to the Group.

The Group established a limited trading book in January 2007. This is subject to a rigid risk limit framework that is reported daily. The framework includes stop loss limits for daily (£0.5m), monthly (£1m) and annual (£2m) trading losses. Any breaches of these limits are reported to the Group Finance Director immediately and to ALCO and the GRC.

Foreign exchange risk
As the Group does not actively seek foreign exchange exposures, with the net exposure to foreign currencies relating primarily to net interest income streams denominated in the foreign currencies, the limit placed on this risk is small in relation to the Group's other risk exposures. This exposure limit and the small range of foreign currencies it is related to are set out in the Balance Sheet Management policy that is approved by ALCO and the Board.

The Group raises and invests funds in currencies other than sterling. Accordingly, foreign exchange risk arises from activities related to the Group managing borrowing costs and investment returns. As with interest rate risk, Treasury is responsible for managing this exposure within the limits set out in the Group's policies.

Foreign currency exposure is measured daily by Treasury taking into consideration all non-sterling assets and liabilities. This exposure position broken down by individual foreign currency is then circulated to senior managers with an overall summary position provided to senior executives on a monthly basis.

Funds raised in foreign currency are generally converted to sterling using currency swaps. Residual foreign exchange risk is managed through the use of foreign exchange contracts.

It is also managed by matching foreign currency denominated assets with liabilities denominated in the same foreign currency and vice versa.

The Group also has in place a number of committed liquidity facilities to support the Group's activities raising funds in foreign currencies at short notice. These facilities have not been drawn upon during the year or preceding year.

Liquidity risk

Liquidity risk is the risk that the Group, even if it has adequate capital, does not have sufficient funds to meet the Group's obligations as they fall due. A liquidity shortfall could be caused by many factors including:

- a shortfall in wholesale market liquidity;
- the withdrawal of customer deposits; and
- the drawdown of customer borrowings and growth of the balance sheet.

Liquidity risk management within the Group considers both the overall balance sheet structure and projected daily liquidity requirements, measuring the combined effect of asset and liability maturity mismatches across the Group and undrawn commitments and other contingent obligations.

The day-to-day management of liquidity is the responsibility of Treasury, which provides funding to, and takes surplus funds from, each of the Group's businesses as required.

Liquidity policy is approved by the Board and agreed within a framework established by the Financial Services Authority ('FSA'). The scope and nature of the Group's holdings of readily realisable liquid assets are always in excess of regulatory guidelines, after allowing for the potential outflow of funds.

Liquidity risk is assessed by means of a framework that determines the appropriate level of liquidity available at short-notice in conjunction with a series of stress tests and scenario analyses. The framework and scenarios were developed in conjunction with Group Risk and approved by ALCO and the Board. Included within the scenarios are specific counterparty, Group and financial market events that might, but are unlikely to occur.

The parameters and scenarios selected were determined through a combination of historical data analysis and professional judgement to generate the most severe possible liquidity drain. The stress tests and scenario analyses also consider the time period over which the liquidity demands are most strong, typically one week but also up to three months.

The liquidity risk framework is reviewed and approved by ALCO and the Board on an annual basis. Liquidity reporting is undertaken weekly and circulated to senior members of Group Risk and Group Finance.

Management of current economic conditions

The Group's funding policies and management have been severely tested during the liquidity problems that have emerged in the wholesale markets in the second half of 2007.

Whilst the committees responsible for managing liquidity meet on a scheduled basis, they are able to meet more frequently should the need arise. During September and October 2007, a combination of the BSMC and ALCO met on a daily basis to monitor the impact of the restricted market for wholesale funding impacting global markets. This joint committee reviewed daily cash-flow and balance sheet positions and plans to finance the bank through this period of extreme stress. Whilst conditions eased somewhat towards the end of the year, these daily liquidity updates continue to be circulated to members of both BSMC and ALCO.

As noted earlier, the Group has also arranged a number of committed liquidity facilities that are available to assist in the maintenance of liquidity levels. These are primarily used to support the Group's non-sterling funding activities and are available in a range of currencies. These facilities have not been drawn upon during the year or preceding year. For many years we have worked to diversify our funding base and build strong relationships. This proved very beneficial when we raised £2.5bn in private funding transactions in September and October, at a time when the public wholesale markets were effectively closed.

The Group has maintained its careful approach to funding and, in particular, had continued to invest in the network and build up retail deposits. We also continued to pursue a policy of pre-funding our net new lending and of holding sufficient liquidity for at least four months of continued operations without recourse to the wholesale money markets. At the year end these liquidity balances totalled £8.4bn (2006: £7.8bn).

In response to the unfolding liquidity crunch we took a number of steps to reduce immediate funding needs. We increased mortgage pricing to contain volumes and protect margin; raised savings pricing to attract additional customer deposits; reduced the level of mortgage portfolio acquisitions; and increased focus on lower risk lending. The Group continues to successfully fund the business, most recently with an agreed £2bn of committed term facilities which pre-fund maturing term financing into 2009, and an additional £1.2bn of retail savings deposits already raised in the first six weeks of 2008.

Operational risk

Operational risk is the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or from external events.

Major sources of operational risk include:

- outsourcing of operations;
- dependence on key suppliers;
- IT security;
- internal and external fraud;
- implementation of strategic change;
- regulatory non-compliance (for example, mis-selling); and
- process errors and external threats such as the loss of a critical site.

The Group's business areas manage this risk through appropriate controls and loss mitigation actions including insurance. These actions include a balance of policies, appropriate procedures and internal controls to ensure compliance with laws and regulations. At a detailed level, risk and control assurance is facilitated by Group Risk, in conjunction with line managers, on the risks and control effectiveness within their areas of responsibility.

In addition, specialist support functions provide expertise in risk areas such as information security, health and safety, compliance, fraud management, security and business continuity management.

A process is in place for the recognition, capture, assessment analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events.

The Group has met the eligibility criteria for the adoption of the standardised approach to operational risk and assesses relevant income from prescribed business lines such as Retail Banking, Retail Brokerage and Commercial Banking. For each business line, the Group's average annual published relevant income based on the last three years is calculated. Capital is held to support operational risk for each business line at prescribed rates from 12% to 18% of its average annual relevant income.

Social, Environmental and Ethical ('SEE') risks

SEE risks are identified and considered by the Corporate Social Responsibility ('CSR') team in the Group HR function within our risk management and control policies.

Directors' report
Our Board

1 Rod Kent (MA, MBA)
Chairman
Rod (age 60) joined the Board in September 2002 and became Chairman in November 2002. He was Managing Director of Close Brothers for 28 years until 2002, a Non-executive Director of Close Brothers Group plc for four years and was appointed Chairman in November 2006. He is also Chairman of Grosvenor Limited and BT Pension Scheme Trustees Ltd and a governor of the Wellcome Foundation. He is Chairman of the Nominations Committee and a member of the Remuneration Committee, and Balance Sheet Management Committee.

2 Steven Crawshaw (MBA, LLB)
Group Chief Executive
Steven (age 46) joined Bradford & Bingley from Lloyds TSB in 1999 as Flotation Director before he was appointed to the Board in January 2002, taking responsibility for Group Strategy, HR & IT. He became Managing Director, Lending in January 2003. He was appointed Group Chief Executive in March 2004. He is a member of the Nominations Committee.

3 Nicholas Cosh (MA, FCA)
Non-executive Director
Nicholas (age 61) joined the Board of Bradford & Bingley Building Society in July 1999 and the plc Board in April 2000. He is a chartered accountant and was formerly Group Finance Director of a number of companies including JIB Group plc, MAI plc and Charterhouse Japhet. He is Chairman of Kiln plc and a Non-executive Director of ICAP plc and Hornby plc. He is Chairman of the Balance Sheet Management Committee, a member of the Audit Committee and the Nominations Committee and the recognised Senior Independent Director.

4 Stephen Webster (FCA)
Non-executive Director
Stephen (age 55) joined the Board in May 2003. He is Group Finance Director of Wolseley plc, the building materials distribution company. He is a chartered accountant and was formerly a Partner at Price Waterhouse. He is a member of the Hundred Group Financial Reporting Committee. He is Chairman of the Audit Committee and a member of the Nominations Committee.

5 Ian Cheshire (MA, FRSA)
Non-executive Director
Ian (age 48) joined the Board in August 2003. He was appointed Chief Executive of Kingfisher in January 2008, where he was previously Chief Executive of B&Q, prior to which he was Chief Executive, International and Development. Before joining Kingfisher, he worked for Boston Consulting Group, Guinness plc and a number of retail businesses including Sears. He is a member of the Audit Committee, the Remuneration Committee and the Nominations Committee.

6 Robert Dickie (MBA, FCIBS, FRSA)
Group Operations Director
Robert (age 48) joined Bradford & Bingley on 2 January 2003 and was appointed to the Board in August 2003. He joined from Zurich Financial Services Group (UK) Ltd where he was Managing Director, UK Enterprise. Prior to this, Robert held a variety of senior positions at National Australia Bank which he joined from Clydesdale Bank. He is responsible for the information technology, property and procurement, lending operations, retail operations, customer relations, collections and change delivery functions.

7 Louise Patten (MA)
Non-executive Director
Louise (age 54) joined the Board in December 2003. She is currently Non-executive Chairman of Brixton plc and a Non-executive Director of Marks and Spencer Group plc as well as senior adviser to Bain & Co. She began her career at Citibank and remained in financial services until 1993, when she joined the management consultancy, Bain & Co, as a Partner. Her previous experience as a Non-executive Director includes the Hilton Group, Great Universal Stores and Somerfield. She is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Our Board bring a wide range of banking and commercial experience to the Group

Chairman of the Remuneration Committee and a member of the Nominations Committee.

8 Chris Willford (BA, ACMA)
Group Finance Director
Chris (age 45) was appointed to the Board as Group Finance Director in October 2005. He is a chartered management accountant and previously held senior finance roles at Abbey, Barclays Bank and British Airways. He is responsible for the finance, compliance, risk, audit, legal and company secretarial functions.

9 Roger Hattam (BA, MBA)
Managing Director Group Product and Marketing
Roger (age 39) was appointed to the Board on 1 May 2007 as Group Product and Marketing Director, with additional responsibility for credit management, strategy and commercial lending. Roger has worked extensively within the Company for 17 years, including roles in credit management, Group strategy, and the retail salesforce, during which time he launched the relationship with Legal & General. He completed his MBA in 2000. He is a member of the Balance Sheet Management Committee.

10 Mark Stevens (MA, MBA)
Group Sales Director
Mark (age 38) joined Bradford & Bingley as Managing Director, Group Strategy in 2003 after spending three years as a Principal at Apax Partners and six years as a partner at Mercer Management Consulting. In May 2004 Mark became a member of the Executive Committee. He joined the Board on 1 May 2007 as Group Sales Director with responsibility for intermediary sales, the branch and branch type agency network, direct channels, partnerships and Bradford & Bingley International.

11 Michael Buckley (MA, LPh, MSI, FCIB(RoI))
Non-executive Director
Michael (age 62) joined the Board in July 2007. He is Non-executive Director and Senior Independent Director at DCC plc and a Non-executive Director of both M&T Bank Corporation in the USA and Bramdean Alternatives Limited. Michael is senior adviser to a number of privately held Irish and international companies and is an Adjunct Professor at the Department of Economics at NUI University College Cork. He was Group Chief Executive of Allied Irish Banks plc from 2001 to 2005 having earlier served as Managing Director of AIB Capital Markets and AIB Poland. Previously, he was Managing Director of the NCB Group and a senior public servant in Ireland and the EU. He is a member of the Audit and the Nominations Committees.

Group committees

The Board Directors serve on a number of committees and information about the Audit, Balance Sheet Management, Remuneration and Nominations Committees is included pages 25 to 26. In addition, Bradford & Bingley has other management committees that focus on day-to-day matters, including the Executive Committee. This Committee generally meets on a weekly basis and is the key collective decision making body with regard to the operational issues within the Group. The members of this Committee are the Executive Directors: Steven Crawshaw, Robert Dickie, Roger Hattam, Mark Stevens and Chris Willford together with Ian Anderson (Group HR Director). Information about the committees focused on the compliance and risk areas of our business is included on page 19.

Directors' report
Other matters

Directors and their interests
Roger Hattam and Mark Stevens were appointed to the Board on 1 May 2007 as Group Product and Marketing Director and Group Sales Director respectively. Michael Buckley was appointed to the Board on 26 July 2007 as a Non-executive Director. Chris Gillespie resigned from the Board on 1 May 2007 and George Cox retired from the Board on 31 December 2007.

Rod Kent, Nicholas Cosh and Steven Crawshaw will retire by rotation at the forthcoming Annual General Meeting ('AGM') and offer themselves for re-appointment under the terms of the Articles of Association. Roger Hattam, Mark Stevens and Michael Buckley, who were appointed since the last AGM, are required to retire by rotation at the AGM and seek re-appointment in accordance with the Articles of Association. Details of the service contract notice periods for Messrs Crawshaw, Hattam and Stevens are contained in the table on page 36. Messrs Kent, Cosh and Buckley do not have service contracts.

For further information see pages 22-23

The beneficial holdings in shares shown below include the Directors' personal holdings and those of their spouses and minor children.

For further information see pages 33-39

There has been no change in the Directors' interests in shares or options granted by the Company between the end of the financial year and one month prior to the notice of the AGM.

Ordinary shares	At 31 December 2007	At 31 December 2006
Rod Kent	25,000	25,000
Michael Buckley	-	-
Ian Cheshire	328	328
Nicholas Cosh	8,000	8,000
Steven Crawshaw	184,536	146,005
Robert Dickie	75,386	38,707
Roger Hattam	20,343	16,492*
Louise Patten	7,500	7,500
Mark Stevens	10,691	10,691*
Stephen Webster	3,156	3,000
Chris Willford	250	250

* number of shares on appointment.

No Director had any material interest during the year in any contract of significance to the Group's business.

Disclosure of information to the auditor
As at the date of this report each person who is a Director confirms that:
- so far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken such steps as he or she should have taken as a Director in order to make him or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

For further information see pages 25-27

Share capital
a) Issue of ordinary shares
During 2007, no new ordinary shares were issued. The number of issued ordinary shares at 31 December 2007 was 617,674,534.
b) Purchase of ordinary shares
At the AGM in 2007, the shareholders authorised the Company to purchase up to 63.4 million of the Ordinary 25 pence shares. This was a renewal of the authority granted in previous years. During the year 16.75 million shares were purchased at a cost of £58.6 million. The shares bought back were cancelled from the number of shares in issue. The number of shares in issue reduced as a consequence of this programme from 634 million to 618 million.

The authority to purchase shares remains valid until the earlier of the AGM in 2008 or 22 October 2008. A resolution will be put to shareholders to renew the authority at the forthcoming AGM.

For further information see note 38

Change of control provisions
The following key contracts contain change of control provisions:
- ASDA Financial Services Limited: Intermediary services and account operating services agreement;
- Homeloan Management Limited: Mortgage settlement and related administration agreement;
- Newcastle Building Society: Savings account operating services agreement;
- Vertex Limited (formerly The Malborough Group plc): Supply agreement; and
- Xit2 Limited (formerly The Valuation Exchange Limited): Services agreement.

The impact of such provisions is that on a change of control of the Company certain of the agreements with the Company, or its subsidiaries may alter or terminate.

Employee involvement
During the year we have continued to maintain and develop policies and approaches which enable:
- sharing information with employees;
- consultation with employees and decisions affecting employees' interests;
- encouraging employee involvement in the Company's performance through employees' share schemes or by other means; and
- achieving a common awareness on the part of all employees of the financial and economic factors affecting performance of the Company.

Major shareholders
At the date of this report the following interests of 3% or more in the total voting rights of the issued share capital of the Company had been notified in accordance with Disclosure and Transparency Rules of the FSA:

Standard Life Investments	5.715%
Prudential Plc	5.312%
Invesco Ltd	5.085%
Legal & General Group plc	4.000%
Deutsche Bank AG	3.170%
Barclays Plc	3.020%

Corporate social responsibility
Bradford & Bingley is committed to carrying out its activities in a socially responsible manner in respect of the environment, employees (including equal opportunities, employee participation, staff incentives), customers, shareholders, local communities and other stakeholders.

For further information see pages 28-32

Charitable and political donations
During 2007, the Group allocated £1,850,616 to its programme of community investment, including payments to charitable organisations of £664,750.

For further information see pages 31-32

No contributions were made for political purposes in 2007. We do not plan to make any payments that might be deemed to be political in nature.

Creditor payment policy
It is the policy of the Company to pay creditor invoices within 30 days of the invoice date. The Company is willing to consider requests by small suppliers for a shorter settlement period. The average number of creditor days in 2007 was 13 days (2006: 14 days).

Annual General Meeting
The Notice of the AGM to be held on 22 April 2008 is given in the separate AGM booklet. Included in the ordinary business of the Meeting will be resolutions to seek shareholder authority to renew the authority for the Directors to issue shares. Authority will also be sought to make changes to the Executive Incentive Plan 2004. The special business of the Meeting will seek shareholder authority to disapply the statutory pre-emption rights to certain share issues and to enable the Company to make market purchases of its own shares up to a maximum of 61.7 million shares. Authority will also be sought to approve changes to the Articles of Association.

Auditor
A resolution to re-appoint KPMG Audit Plc will be put to members at the forthcoming AGM.

Paul Hopkinson, Company Secretary, on behalf of the Board, 12 February 2008.

Governance

Corporate governance report

Bradford & Bingley is committed to high standards of corporate governance in its business.

The Directors are pleased to report that, throughout the year ended 31 December 2007, the Company complied with the provisions of the Combined Code. This Corporate Governance Report, coupled with the Directors' Remuneration Report, explains how the Company has applied the governance principles set out in the Code.

The Board

During the year, the Directors satisfied the main and supporting principles and provisions of the Code by the following actions, procedures and policies:

- The Board met ten times during the year. This included two meetings primarily devoted to strategic matters. In addition, the Chairman held one meeting with the Non-executive Directors without the Executive Directors being present. One meeting of the Non-executive Directors, chaired by the Senior Independent Director, was also held without the Chairman present in order to review the Chairman's performance.

- As a matter of policy, the roles of Chairman and Group Chief Executive are distinct and the offices are held by different people (Rod Kent and Steven Crawshaw respectively). The role of each is recorded in writing and has been agreed by the Board.

- During the year the constitution of the Board satisfied the Code at all times. At the end of the year the Board consisted of a Non-executive Chairman, five independent Non-executive Directors and five Executive Directors. The independent Non-executive Directors bring wide experience from varied backgrounds to the workings of the Board and the Board considers that all independent directors meet the independence criteria set out in the Code.

- The recognised Senior Independent Director, until the end of September 2007, was George Cox. Nicholas Cosh took over as Senior Independent Director from 1 October 2007.

- The purpose of the Board is to govern the Group's strategic direction, supervise its operational management and define and monitor acceptable risk parameters for the Group. The Board has adopted a structure of mandates, granted to individuals and committees throughout the Group, whilst retaining specified matters for its exclusive decision. The specified matters include the approval of annual budgets, approval of interim and annual financial statements, the approval of recommendations in connection with the payment of dividends, approval of corporate governance arrangements, the approval of the Group's strategic direction and the approval of various policies to be adopted by the Group. The mandate structure enables authorised individuals to approve levels of expenditure and commit to contracts or other agreements in the normal course of business.

- The Board reviews its constitution every year and during 2007 the Chairman took the lead role in the evaluation of the performance of the Board, the principal committees and the performance and commitment of each Director. The process included questionnaires, one-to-one interviews with the Chairman and a full discussion at a Board Meeting. Nicholas Cosh, the Senior Independent Director, led the Non-executive Directors in the evaluation of the Chairman.

  All Directors are subject to election by shareholders at the first AGM after their appointment by the Board and each Director is subject to re-appointment every three years, in accordance with the Articles of Association. Rod Kent, Nicholas Cosh and Steven Crawshaw will retire by rotation at the AGM in 2008 and offer themselves for re-appointment by shareholders, under the terms of the Articles of Association. Michael Buckley, Roger Hattam and Mark Stevens were appointed since the last AGM and will seek re-appointment at the AGM, in accordance with the Articles of Association. As part of the evaluation process, these re-appointments were considered by the Nominations Committee, which recommended to the Board that the performance of the existing individuals concerned was effective and their commitment exemplary. The new appointees were considered to be valuable additions to the Board who would contribute considerable experience of the mortgage business and the financial services sector to Board discussions. In light of his length of service on the Board, Nicholas Cosh is seeking re-appointment for one year only. This will allow the Board time to seek an appropriate replacement Non-executive Director, whilst maintaining continuity to ensure the smooth operation of the Board. Further information about the recommended re-appointments is included in the Notice of the AGM.

- External and internal training is available to all Directors as required. A number of Non-executive Directors undertook visits to operational locations and branches, to enhance their understanding of the Group. Throughout their period in office, all Directors are updated on Group business, the competitive and regulatory environment in which it operates and other changes as they occur, via presentations at Board or committee meetings. During 2007, a programme of briefings and training on the implications of Basel II, the Companies Act 2006 and "Treating Customers Fairly" were arranged for the Board.

- All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. The Company Secretary also assists the Chairman in facilitating the Directors' training. Directors are also able to take independent professional advice at the Company's expense.

Principal Board committees

The Board has established a number of committees, each of which has detailed terms of reference. The four principal committees are the Audit, Balance Sheet Management, Remuneration and Nominations Committees. The Audit and the Remuneration Committees comprise only independent Non-executive Directors. The terms of reference of all these committees are available on request to the Registered Office and by visiting the 'Corporate Governance' section within the 'Our Business' part of the www.bbg.co.uk website.

During the year the Audit Committee monitored the effectiveness of the Group's risk management process and its financial and other internal control systems, including internal audit, risk management and compliance functions. The Committee also reviewed the Group's accounting policies, financial statements and external reporting responsibilities. It met with the external auditors and received all reports by them addressed to the Group. The Committee reviewed the disclosure of information to the external auditor as required by the establishing Companies Act and the governance issues for tax enhanced deals. It also reviewed the Company's risk framework and assessed the funding lessons to be learned from the "liquidity crunch". It continued to review the mis-selling compensation provisions and actions being taken to comply with the Treating Customers Fairly requirements. It also reviewed the arrangements for staff to raise concerns about possible improprieties in the area of financial reporting or other issues. The Committee reviewed its terms of reference and made a small number of changes to improve the effectiveness of the meetings.

Governance

Corporate governance report continued

The Audit Committee also considered the position of the internal and external auditors including any risk of conflict of interest. The Group recognises the importance of internal and external auditor independence and has adopted principles to safeguard this, as follows:

- the Group will continue to use the external auditor for non-audit work where appropriate;
- the Group recognises the need for transparency around the services being provided and for a central independent overview. This is provided by the Audit Committee which monitors audit and non-audit fees paid; and
- there is an appropriate approval process for non-audit work to ensure that external auditor independence is not compromised.

The members of the Committee are Stephen Webster (Chairman), Ian Cheshire, Nicholas Cosh and Michael Buckley. The Board is satisfied that Mr Webster fulfils the Code requirement that at least one member of the Committee has recent and relevant financial experience.

During the year, the Balance Sheet Management Committee monitored the Group's capital position and funding policies, including the import of Basel II. The Committee approved all treasury policies and, in the latter half of the year carefully considered the impact of the turmoil in the wider market on liquidity and the measures in place to manage this. During September and October 2007, a combination of the Committee and ALCO met on a daily basis to monitor the impact of the restricted market for wholesale funding. In addition, the Committee reviewed dividend policy, secure medium term funding facilities and stress testing of the mortgage book. The members of the Committee throughout the year were Nicholas Cosh (Chairman), Rod Kent, Chris Willford, Roger Hattam and the Director of Treasury and Wholesale Banking (a senior executive).

The Remuneration Committee, during the year, reviewed the remuneration policy for the Group, including the salary, bonus and benefits arrangements for the Executive Directors and other members of the senior management team. Following changes to the Combined Code implemented in 2006, Rod Kent became a member of the Committee with effect from January 2007. George Cox stepped down as Chairman of the Committee and was replaced in June 2007 by Louise Patten. The Committee also reviewed the grants and awards of schemes established by the Company. The members of the Committee during 2007, were Louise Patten (Chairman), Rod Kent, Ian Cheshire and George Cox. Following his resignation from the Board on 31 December 2007, George Cox will no longer sit on the Remuneration Committee, otherwise the membership of the Committee is unchanged.

For further information on remuneration see pages → 33-39

The Nominations Committee reviewed the composition of the Board. The Committee recommended Directors for re-appointment at the AGM and no Director took part in the discussions relating to their own re-appointment. The Committee also made recommendations to the Board on the appointment of two new Executive Directors and of one Non-executive Director. External recruitment consultants assisted with the search for the new Non-executive Director. The members of the Committee, during 2007, were Rod Kent (Chairman), Ian Cheshire, Nicholas Cosh, George Cox, Louise Patten, Stephen Webster, Michael Buckley and Steven Crawshaw. Following his resignation from the Board on 31 December 2007, George Cox will no longer sit on the Nominations Committee, otherwise the membership of the Committee is unchanged.

Board meeting and committee attendance 2007

The table below shows the attendance by Directors at the Board meetings and at the principal committees of which they were members during the year. Director absences were the result of unavoidable diary clashes and, in all cases, were agreed with the Chairman in advance.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Rod Kent	10/10	-	4/4	2/2
Steven Crawshaw	10/10	-	-	2/2
Michael Buckley	4/4	2/2	-	1/1
Ian Cheshire	8/10	3/5	3/4	1/2
Nicholas Cosh	8/10	5/5	-	1/2
George Cox	10/10	-	4/4	2/2
Robert Dickie	10/10	-	-	-
Roger Hattam	6/7	-	-	-
Louise Patten	9/10	-	4/4	1/2
Mark Stevens	7/7	-	-	-
Stephen Webster	9/10	5/5	-	2/2
Chris Willford	10/10	-	-	-

Shareholder relations

The Company is committed to ongoing, transparent communication across the shareholder base, whether to institutional investors, private or employee shareholders. The Summary Financial Statement, which details key facts about the Group's performance, is distributed to those private shareholders who have requested it. All Annual Reports and AGM documents, announcements, presentations and press releases are available on our www.bbg.co.uk website.

The Company engages in two-way communication with institutional shareholders, fund managers and analysts to discuss publicly available information on its strategy, performance and policies. The Board receives feedback on these communications from the Directors attending the meeting, and is also regularly apprised of comments from institutional shareholders and analysts so that all Directors can develop a balanced understanding of the issues and concerns of shareholders. The Chairman and Senior Independent Director are available to meet shareholders on request, and will ensure that the Board is aware of any shareholder concerns not resolved through the usual investor communications routes. At each AGM, there is a review of the Group's performance and the Board welcomes the opportunity to gather views and take questions from shareholders.

In connection with the AGM, the Company discloses the level of proxy voting (including for, against and votes withheld), proposes separate resolutions and has a policy that the committee chairmen should attend the Meeting. In addition, the Notice of the AGM and any related papers are sent out to arrive at least 20 business days before the Meeting to ensure that shareholders have sufficient time in which to consider the items of business.

The Directors confirm that they are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future.

Internal control

The Board is responsible for the Group's system of internal control. It seeks regular assurance to satisfy itself that the system is functioning effectively in managing risks in the manner which it has approved. Such a system can only provide reasonable, and not absolute, assurance against material mis-statement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Throughout the year ended 31 December 2007, the Group has operated a system of internal control which includes an ongoing risk management process for identifying, evaluating and managing the significant risks faced by the Group. During the year, the Board has continued to review the effectiveness of the Group's system of financial and non-financial controls including operational and compliance controls, risk management and the Group's most significant risks and mitigating actions.

In addition, as part of the process of preparing this statement, the Board has also performed its annual assessment of the effectiveness of internal controls. No significant weaknesses or failings in the system of internal controls were identified in this annual assessment. Management continually takes action to improve internal controls, either as a result of its own initiative or in response to reports from internal audit and other oversight review functions.

Changes in financial regulation continue within the industry. The Group's risk management processes are kept under regular review to ensure that the Group responds appropriately both to actual and proposed regulatory changes.

The Group's management operates a risk management process, producing a Group-wide risk profile. This identifies the Group's significant risks, the probability of those risks occurring and their impact should they occur, and has the prime responsibility for the design and operation of suitable controls and mitigating actions. The risk management process is complemented by a formalised reporting and escalation process for control issues. Internal audit has a key role in maintaining the control environment by providing independent assurance on the effectiveness of the Group's internal control systems. The Group Risk Committee oversees the risk management process, regularly considers the Group-wide risk profile, and receives monitoring reports to update it on progress.

For further information on risk management and control see pages → 18-21

The Group is committed to developing and maintaining an appropriate risk management framework and culture with the aim of continuing to ensure that management understand the key risks that the business faces. This is achieved through an organisational structure with clear reporting lines and governed by appropriate business monitoring mechanisms, codes of conduct and policy statements.

The system of internal control has been in place throughout 2007 and up to the date of approval of the Annual Report & Accounts. It accords with the guidance from the Turnbull Committee.

In reviewing the effectiveness of this system, the Board takes into account the work of the Audit Committee which receives reports from the Group Risk Committee on the Group's significant risks and how these are being managed. The Board also considers reports from internal audit, external audit, compliance and management on the system of internal control, adherence to regulatory requirements and material control weaknesses, if any, together with actions taken to address them. The Chairman of the Audit Committee reports on the outcome of each meeting to the Board, where appropriate, and the Board also receives minutes of these Committee meetings.

Going concern

The Directors confirm that they are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Governance
Corporate social responsibility

Bradford & Bingley has continued to develop its Corporate Social Responsibility ('CSR') programme during 2007, with particular focus on improving our environmental performance.

Bradford & Bingley became a CarbonNeutral® company on 1 January 2007, offsetting all our carbon dioxide ('CO_2') emissions.

In addition to offsetting, we have worked hard to reduce our total level of emissions and the Company now has a carbon footprint of under 0.5 tonnes of CO_2 per employee.

Bradford & Bingley believes in placing CSR at the heart of our business activities. We aim to conduct our business in a socially responsible manner in respect of the environment, staff, customers, shareholders and local communities.

We continue to structure our CSR reporting along the FORGE framework for CSR Management and Reporting for the Financial Services Sector. The FORGE Group is a consortium of financial institutions and involves the British Bankers' Association and the Association of British Insurers (reference – www.abi.org.uk/forge). Our CSR report follows the four major themes identified by FORGE as being those most relevant to financial services organisations – Marketplace, Workplace, Community and Environment.

Our CSR report, which is published separately, was independently verified by Bureau Veritas.

Bradford & Bingley has published a stand alone CSR report since 2003 and each year we have responded to feedback on the previous year's report by including more information on Key Performance Indicators ('KPIs') and targets for our CSR programme.

Bradford & Bingley is a national member of Business in the Community ('BITC'), and the London Benchmarking Group.

Bradford & Bingley continues to be a member of the FTSE4Good Index of socially responsible companies and participates in the BITC Corporate Responsibility Index. In 2007 Bradford & Bingley was proud to be named as one of the top 100 'Companies That Count' in the Corporate Responsibility Index.

Bradford & Bingley was awarded Gold status in the BITC Corporate Responsibility Index and was awarded Platinum status in the BITC Community Index and BITC Environment Index, the highest grade possible.

We were also proud to be awarded a BITC Silver Big Tick for our ten year partnership with Shelter, and a BITC Big Tick in the EDF Energy Environmental Leadership Award category.

Ian Anderson, Group HR Director, took over executive responsibility for the Group's CSR programme in 2007.

Doing the right thing in the marketplace

Lending

Bradford & Bingley's residential lending activity continues to focus on a range of niche areas providing mortgages for individuals who need a more specialist product than those available in the mainstream mortgage market. The three main products are buy-to-let, self-cert and lifetime mortgages.

Buy-to-let

Bradford & Bingley is the market leader in buy-to-let with the largest buy-to-let customer base in the UK, accounting for around 20% of the market.

All of our buy-to-let products offer flexible payment features as an integral part of the mortgage. This enables people to overpay or underpay their mortgage, or even take a payment holiday. This is part of our commitment to understanding our customer needs and responding to changing lifestyles and employment patterns.

Bradford & Bingley's intermediary brand, Mortgage Express, also uses its position as a market leader to publish authoritative reports on confidence in the buy-to-let market and economic outlook reports from its chief economist. Both of these reports are published on our website, www.mortgageexpress.co.uk.

We can see that buy-to-let has increased the availability of rental housing stock in the UK, making it easier for people to find affordable decent housing. Bradford & Bingley's product range has been at the forefront of buy-to-let and we intend to keep our market leading position.

Self-cert

Bradford & Bingley's self-cert product range aims to help customers who are finding that their employment patterns are becoming increasingly more diverse and therefore do not fit the requirements of most mainstream high street lenders.

Self-employed customers make up almost 10% of the working population (source: Office of National Statistics) where multiple jobs or income sources and seasonal or short term contracts are common. Part time workers now account for 25% of the total labour force (source: Labour Force Survey).

It is these customers that our self-cert product range is designed to help. With the valuable underwriting experience that we have gained in specialist lending markets, we are able to work with our customers to decide how much they can afford to borrow.

Lifetime

Lifetime mortgages enable homeowners over the age of 60 to release some of the equity they have built up in their properties to enhance their lifestyle in retirement.

Bradford & Bingley is one of the leading lenders in the lifetime mortgage market, sold through our Mortgage Express brand.

Lifetime mortgages are regulated by the FSA and Bradford & Bingley continues to be a member of Safe Home Income Plans ('SHIP') through the Mortgage Express brand.

SHIP is the UK's leading professional body for equity release providers. Launched in 1991, it is dedicated entirely to the protection of borrowers and promotion of safe home income and equity release plans.

In addition to these specialist loans, Bradford & Bingley also has a portfolio of traditional residential mortgages, which are secured on UK residential property and sold through our branch network.

Savings

Bradford & Bingley's branch and third party network offers a very competitive range of deposit based savings and investment products, supported by our online, postal and telephone channels.

In 2007, Bradford & Bingley partnered with the Wallace & Gromit's Children's Foundation to utilise one of their major new characters, Shaun the Sheep, in a range of product initiatives.

The Wallace & Gromit's Children's Foundation is a national charity raising funds to improve the quality of life for children in hospitals and hospices throughout the UK.

Bottom, left page:
Wallace & Gromit character Shaun the Sheep starred in a range of Bradford & Bingley product initiatives in conjunction with the Wallace & Gromit Children's Foundation which is a national charity raising funds to improve the quality of life for children in hospitals and hospices throughout the UK.

Below:
Umran Amin, Bradford & Bingley's Learning Manager, shows some of the learning materials used in the Bradford & Bingley Academy.

The Foundation funds an innovative range of projects to ensure these children have a better, brighter future. Created in 2003, the Foundation has funded projects in 23 hospitals and hospices.

To raise funds for the Foundation, Bradford & Bingley ran a national Shaun the Sheep colouring competition for which Bradford & Bingley made a donation for each entry received. Our branch network continued to sell pin badges and the whole Group took part in the Wallace & Gromit Wrong Trousers Day in June. In 2007, Bradford & Bingley staff and customers raised over £15,000 for the Foundation.

As well as selling mortgages and growing savings balances, the branch network also maintains and develops relationships with our customers. In order to do that, Bradford & Bingley offers a wide choice of highly competitive products from a range of providers including general insurance, wealth and personal loan products, which are provided by third parties.

Investment guidelines

As a primarily residential lender we lend to individuals rather than businesses, so we do not incorporate ethical or environmental criteria over and above legal requirements. For example, not lending to bankrupts nor lending on properties without planning permission or clear legal title.

We seek to be a responsible lender and ensure our credit checking identifies individuals who have the ability to repay the loans and not get into repayment difficulties. Our mortgage products do not offer loan values based on unreasonable multiples of salary.

Doing the right thing in the workplace

Bradford & Bingley's employment practices continue to reflect the human rights standards enshrined in the United Nations Universal Declaration of Human Rights and the International Labour Organisation Conventions. These cover such items as minimum working age, working hours, health and safety and discrimination.

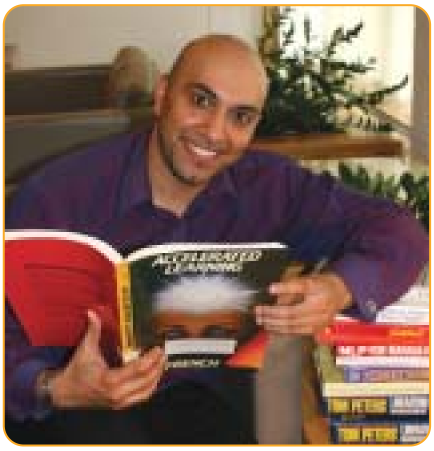
During 2007, Bradford & Bingley continued to roll out its culture and values programme. This nurtures a culture of working together across departments and functions within the Company, with a focus on reaching every member of staff as well as obtaining objective feedback across the Group.

The staff satisfaction survey ran quarterly throughout 2007 and, in addition to reporting on the Group level results, managers received feedback on their teams.

We have also incorporated a score for the 'feel-good' factor, incorporating such questions as how likely staff would be to recommend Bradford & Bingley as a place to work and whether they feel the Company has changed for the better in the last twelve months. The feel-good factor has remained constant at 79% this year, which demonstrates that the culture and values programme has remained at the forefront of people's behaviours. This is a significant increase on the feel-good factor of 58% in 2005 before the culture and values programme was rolled out (2006: 78%).

The response rate for the survey continues to increase and is now up to 82% (2006: 72%).

Bradford & Bingley has an in-house training facility, The Bradford & Bingley Academy, designed to proactively work with people in both career and personal development.



In 2007, the Academy delivered the majority of employee training, including two major courses for managers. Team managers within operations functions and branch managers have been able to attend a two day training module on the manager as communicator to enhance their communication and mentoring skills. Branch managers have also benefited from a two day training module on the importance of good customer service and ways to improve delivery.

Bradford & Bingley operates in different communities across the UK and we understand the benefits of diversity to our business.

Our workforce should reflect the communities in which we live and work, and our employment practices help us to deliver on this goal. We promote diversity and equality across all aspects of working life and we believe it is important to share best practice and success. We provide the opportunity for all staff to develop their skills and knowledge and to enjoy fulfilling careers.

Bradford & Bingley is a member of the Employers' Forum on Disability, the Employers' Forum on Age and Opportunity Now. These organisations, amongst others, look at ways to promote awareness of disability, age, race and gender within the workplace.

Bradford & Bingley recognises that a diverse workforce gives the Company a wider range of experiences and helps us to respond better to the needs of our customer base. We take our commitment to diversity seriously and have a named Board Director, Robert Dickie, responsible for diversity issues and reporting.

Women occupy 47% of management roles (2006: 47%) and 26% of senior management roles (2006: 35%) within the Group.

Ethnic minorities occupy 7% of management roles (2006: 5%) and 5% of senior management roles (2006: 6%). In 2007, 10% (2006: 10%) of the total workforce are from ethnic minorities, a figure that is representative of the UK workforce as a whole.

Analysis of workforce by percentage

	2007	2006	2005	2004	2003
Women (overall)	**66%**	66%	65%	65%	61%
Women (management)	**47%**	47%	45%	44%	36%
Ethnic minorities (overall)*	**10%**	10%	10%	11%	13%
Ethnic minorities (management)*	**7%**	5%	5%	7%	9%
Value of training	**£2.4m**	£3.3m	£1.5m	£1.6m	£7.2m
Value of training per staff member	**£746**	£1,021	£492	£501	£929
Percentage of staff represented by recognised trade union ('UBAC')	**45%**	45%	52%	46%	40%
Percentage of staff participating in Sharesave scheme	**37%**	35%	39%	52%	52%

* currently 28% of staff records do not have an ethnic origin recorded. Figures for the 72% of staff records with ethnic origin recorded have been grossed up to represent 100% of staff for comparison purposes.

Governance

Corporate social responsibility continued

Bradford & Bingley's main partner in incorporating diversity across the business is Quest for Economic Development ('QED') which is a Bradford-based organisation set up to support the South Asian community within the UK. However, since its inception in 1990, QED has worked with many FTSE 100 companies and government departments to promote the benefits of diversity within the workplace.

We are also concerned about the health and wellbeing of our employees, recognising that this is vital to our business. We have comprehensive policies agreed with the recognised staff union ('UBAC') on Flexible Working and Fair Treatment at Work. We continue to offer a confidential counselling service, provided free of charge to employees and their families, to enable discussion of any issue affecting their lives, at work or at home.

Our Flexible Working Policy is available to all staff, not just those with children under six or disabled children under eighteen, which is the legal requirement. For Bradford & Bingley, flexible working incorporates a wide variety of working practices and can be any working pattern other than the normal one.

Bradford & Bingley was awarded the 'two ticks' symbol by the Employment Service in June 1995. This recognises our commitment to people with disabilities. Using the 'two ticks' symbol means we are working towards the guidelines in the Employment Service Code of Good Practice on the Employment of Disabled People.

The symbol is used in our job advertisements and application forms to make it clear to potential applicants with a disability that we welcome their application on the basis of their abilities and will interview all applicants with a disability who meet the minimum criteria for the role.

We have induction loops in all branches, and have improved wheelchair access and introduced power assisted doors across the branch network. The Royal National Institute for the Deaf ('RNID') provide interpretation services for our customers and we provide sign language, lip speaking, deafblind manual interpretation, speech to text interpretation and a notetaking service. In addition, customers can access our products via RNID's Typetalk service.

Bradford & Bingley is also committed to ensuring accessibility across our product range and we continue to provide customers with literature in different formats, such as Braille, audio and large print. Our corporate and customer-facing websites have been audited by the Royal National Institute for the Blind ('RNIB') to ensure that they are as user-friendly as possible.

Bradford & Bingley has a legal and moral responsibility for the health and safety of its staff and members of the public where they are affected by its business.

We review our Health & Safety Policy Statement on an annual basis at Board level and the policy is updated every January. A full copy is issued to every branch and department.

Robert Dickie, Group Operations Director, is the nominated member of the Board of Directors responsible for Health & Safety and chairs the Group Health & Safety Committee.

In addition, Bradford & Bingley operates a dedicated Health & Safety Advice Line for any member of staff to request information or advice from the Health & Safety Team. This is accessible by telephone, fax or email.

One of the most significant risks associated with the Group's operations is the safety and health risks associated with bank raids. Thankfully, these events are rare and have reduced over the past decade. In 1998, Bradford & Bingley suffered 38 raids but in 2007, we suffered 10.

One of the main reasons for this decrease is the Group's ongoing work on improving its security measures. The Group is a member of the Raid-control Trust (www.raid-control.org), a crime reduction initiative that aims to raise security standards in retail premises, thereby reducing the potential for commercial robbery and creating safer working environments.

In 2007, we invested in new security systems in all branches to bring them up to the Raid-control standard, a significant commitment by the Group.

In 2006, we reported on the work done by Bradford & Bingley to develop an action plan on managing the health effects of work-related stress. We are pleased to report that in 2007, we have seen significant reductions in the levels of stress-related absence.

Stress-related absence at Bradford & Bingley is in line with industry levels but the financial sector has been identified by the Health & Safety Executive ('HSE') as an action area for stress management.

Our bespoke Stress Management Plan combines risk assessment techniques with information and advice for managers and staff and requires managers to update all risk assessments and action plans on at least, an annual basis.

In 2007, we saw stress-related absence fall by 48% to 480 hours lost per 100,000 hours worked (2006: 916.6 hours). The work done by our Health & Safety department on stress management has been recognised by the HSE as setting best practice in this area and the Group is regularly invited to present a case study at HSE 'Healthy Workplace Solutions' workshops across the UK.

Top, left page:
Bradford & Bingley CEO, Steven Crawshaw, led a national visit to Bradford as part of HRH The Prince of Wales Seeing is Believing Programme.

Below:
Bradford & Bingley was awarded the Silver Big Tick in Business in the Community's Awards for Excellence for its ten year partnership with Shelter, the national homelessness charity.

One of the challenges in operating a national branch network is ensuring that health and safety is managed consistently across all of our branches. This is further complicated by the fact that the local authority for each branch is the 'enforcing authority' for health and safety legislation rather than any national organisation.

In recognition of this, the Group signed a Lead Authority Partnership with Bradford District Council in September 2006. The Lead Authority Partnership Scheme ('LAPS') sets out to raise the standard of health and safety management in a business by partnering with one local authority. That local authority then becomes the focal point of liaison on health and safety issues between other local authorities, the Health & Safety Executive and Bradford & Bingley.

In 2007, our Lead Authority Partnership with Bradford District Council enabled us to apply consistent interpretations of health and safety policy across our branch network. This led to increased compliance with health and safety as measured by our internal audit teams.

We continue to encourage employees to benefit from the Group's success through share schemes. Currently, 37% of employees hold at least one Sharesave account (2006: 35%), enabling them to save over a period of years with the prospect of buying Bradford & Bingley shares at a discount.

Doing the right thing in the community

During 2007, Bradford & Bingley grew its community programme by 10% to £1,850,616 (2006: £1,687,011) as we continued our investment into the communities in which we live and work. This is the seventh consecutive year we have invested over £1 million and the second time we have invested in excess of £1.5 million.

We believe it is important to have a community programme that is relevant to Bradford & Bingley as a business. Preventing and alleviating the causes of homelessness continue to be our main corporate area of support. We have used the increase in our community programme this year to launch a number of schemes supporting personal finance education, both in schools and with parents, as a second area of corporate support.

Bradford & Bingley also invests heavily in the West Yorkshire region, specifically in Bradford and the Aire Valley where its Head Office is located. We support a wide range of community projects in West Yorkshire, including a number of grass roots and community sports projects run by the major professional sports clubs in the area.

Supporting our staff is also important to us and so we have two schemes that are available to support their choice of charities – matched fundraising and matched payroll giving.

Preventing and alleviating the causes of homelessness

We were delighted that in 2007, Bradford & Bingley was recognised in the Business in the Community Awards for Excellence, with the award of a Silver Big Tick. This marked a decade of working with Shelter. The Silver Big Tick was a special Jubilee Award made by BITC to mark the 25th anniversary of it's formation.

Since 1996, Bradford & Bingley has worked with Shelter, the UK's national campaigning charity for homeless and badly housed people. Shelter provides free, professional and independent advice, advocacy and support to over 100,000 people per year.

Business Action on Homelessness ('BAOH') is BITC's flagship programme relating to homelessness. BAOH is a unique partnership between leading businesses, homelessness agencies and the government, which aims to break the vicious cycle of no job, no home, by helping homeless people to find employment and achieve independent living. Bradford & Bingley is a national member of BAOH and Steven Crawshaw, our Chief Executive, sits on the BAOH executive forum.

In 2007, Bradford & Bingley agreed to completely fund the launch of BAOH in Bradford for a minimum of three years and we have also appointed a Programme Manager who is based in our Head Office in Crossflatts.

Personal Finance Education

Bradford & Bingley is working with the UK Career Academy Foundation, who lead and support a national movement of employers, schools and colleges, working to raise the aspirations of 16 to 19 year-olds who are considering a career in finance.

Bradford & Bingley is supporting the Foundation in two secondary schools in Bradford (Buttershaw High School and Dixons Technology College) who launched the Career Academy course in September 2007.

Bradford & Bingley staff participate in two ways: some of our senior managers have been into the schools to deliver lectures or take class exercises; and other managers have agreed to become a mentor to a student.

Bradford & Bingley is also working with Care for the Family ('CFF'), a national charity which aims to promote strong family life. Together we have developed a course called Quidz In which is aimed at parents who want to learn how to talk about personal finance with their children.

Supporting charities and organisations throughout West Yorkshire

Each year, staff at our Head Office sites in Bingley and Crossflatts vote on a choice of charity for the year. This year, the staff voted for Yorkshire Air Ambulance and monthly dress down days and other charitable activities have helped to raise over £6,000 for the charity.

In June, Steven Crawshaw led a national visit to Bradford with HRH The Prince of Wales' Seeing is Believing Programme which focused on Bradford's regeneration plans. Chief executives and senior managers of fourteen national companies came to Bradford to see how private, public and voluntary sectors can work together to support and deliver a regeneration agenda.

Bradford & Bingley continues to work with local primary and secondary schools, during 2007 we participated in the Young Enterprise Scheme with Bingley Grammar School. The Young Enterprise Company Programme is run over an academic year and gives students practical experience of business and enterprise by setting up and running their own business. Bradford & Bingley staff participate by becoming business mentors who work with the students in a weekly meeting.

The Community Action Team, which consists of staff volunteers from across all functions of the business and a representative from the Community Affairs team, has used funds to specifically support their local communities. They meet monthly to consider requests from local charities and community groups and make small grants averaging an approximate £650. During 2007, 40 charities received funding (in the Bingley area).

Bradford & Bingley continues to encourage employee involvement, in particular, by supporting their fundraising activities.

All employees are able to apply for funds to match their fundraising efforts for charity in a scheme which matches the first £250 of funds raised per employee. We saw a large increase of 42% in matching during the year totalling £32,680 (2006: £23,084). We also saw an increase in the number of staff

Governance

Corporate social responsibility continued

receiving matching, up 36% to 144 (2006: 106). This increase has been driven by increased internal promotion, including presentations to all new starters in the Group's induction programme.

Bradford & Bingley also matches employee donations through the payroll-giving programme, Give As You Earn. We continued to promote the scheme to new and existing employees via online and internal promotions. 7.8% of our workforce now donate via Give As You Earn (2006: 8.5%), although, we have seen average monthly amounts donated rise to £26.90 (2006: £23.84). As a Group, Bradford & Bingley matched £81,331 of employee donations (2006: £78,675).

Doing the right thing in the environment
Bradford & Bingley has been committed to reducing its environmental impact for a number of years now. On 1 January 2007 the whole of the Bradford & Bingley Group became CarbonNeutral®.

CarbonNeutral®
protecting our climate

In addition to offsetting our carbon emissions, we have also committed to reducing total carbon emissions across the business. The electricity contract for our Head Office sites in Bingley and Crossflatts, and our entire branch network is for 100% renewable energy, thus reducing our ongoing carbon emissions by 70%.

We continue to develop our Environmental Key Performance Indicators and Targets and have based those indicators on the Reporting Guidelines for UK Business published by the Department of Environment, Food & Rural Affairs (2005).

To demonstrate our commitment to disclosure of our CSR programme, we publish our confidential feedback from the BITC Corporate Responsibility Index, BITC Community Index and the BITC Environment Index on our website.

Bradford & Bingley produces a separate CSR Report which is available on our website, www.bbg.co.uk or on request to csr@bbg.co.uk. Alternatively, please write to CSR Department, Bradford & Bingley, PO Box 2, Bingley BD16 2LW to request a printed copy.

This is a summary of the full CSR Report. For more details please refer to the full report which includes a much larger range of key performance indicators.

Community investment

	2007	2006	2005	2004	2003
Total Community Investment Programme	**£1,850,616**	£1,687,011	£1,320,612	£1,295,639	£1,024,077
Total Community Investment Programme as a percentage of underlying pre-tax profit	**0.53%**	0.50%	0.43%	0.46%	0.39%
Total Community Investment Programme spend per employee	**£575**	£512	£433	£406	£132
Ranking in the BITC Community Index*	**Platinum**	-	-	-	-
Percentage score in the BITC Community Index	**98%**	-	-	-	-
Ranking in the BITC Corporate Responsibility Index*	**Gold**	-	-	-	-
Percentage score in the BITC Corporate Responsibility Index	**94%**	89%	84%	69%	58%

* BITC introduced a ranking system in 2007 of Platinum, Gold, Silver or Bronze for scores above 70% in their indices.

Energy consumption

	2007	2006	2005	2004	2003
Tonnes CO2 generated (Branches)*	**1,428 tonnes**	6,640 tonnes	9,081 tonnes	9,190 tonnes	14,021 tonnes
Tonnes CO2 generated per employee*	**0.44 tonnes**	2.06 tonnes	2.98 tonnes	2.88 tonnes	1.81 tonnes
Water Usage (Branches)	**40,489 m^3**	38,977 m^3	43,292 m^3	46,174 m^3	67,054 m^3
Water Usage per employee	**13m^3**	12m^3	14m^3	14 m^3	9 m^3
Waste	**255 tonnes**	279 tonnes	494 tonnes	n/a	n/a
Percentage waste recycled	**79%**	66%	62%	n/a	n/a
Ranking in the BITC Environment Index **	**Platinum**	-	-	-	-
Percentage Score in the BITC Environment Index	**95%**	87%	77%	62%	61%

* figure calculated using conversion tables supplied by the Department of Environment, Food & Rural Affairs.
** BITC introduced a ranking system in 2007 of Platinum, Gold, Silver or Bronze for scores above 70% in their indices.

Governance

Governance

Directors' remuneration report

The following report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ('Regulations', now contained in Schedule 7A to the Companies Act 1985) and approved by the Board for agreement with the shareholders.

The Remuneration Committee

The role of the Remuneration Committee ('Committee') is to assist the Board in the development and application of remuneration policy for the Chairman, the Group Chief Executive and Executive Directors. The terms of reference of the Committee are available on www.bbg.co.uk.

Committee membership

The Committee is composed entirely of independent Non-executive Directors as detailed below:

Louise Patten (Chairman from June 2007)	All year
Ian Cheshire	All year
Rod Kent	All year
George Cox (Chairman to June 2007)	All year

Louise Patten replaced George Cox as Chairman of the Committee. The Group Chief Executive, Steven Crawshaw, is normally invited to attend Committee meetings for those items other than his own remuneration arrangements. In addition, the Group HR Director may also provide advice to the Committee.

At these meetings, amongst other items, the Committee considered:

- the remuneration levels for Executive Directors;
- the efficacy and competitiveness of the Group's total reward package;
- the structure of the executive pension arrangements and life assurance provision; and
- the appointment of Remuneration Committee advisers.

Each year, the Committee considers the Group's remuneration policy in the context of market and best practice. The Committee regularly reviews arrangements and incentives to ensure that they remain effective and appropriate to the Group's circumstances and prospects and to monitor the level of potential awards.

Advisers

During the year, following an independent selection process, PricewaterhouseCoopers LLP ('PwC') were appointed by the Remuneration Committee as independent adviser to provide external advice on market data, structure and design, and also to provide services to the Group on employee reward. In addition, PwC provides miscellaneous tax services to the Group. Prior to the appointment of PwC, Towers Perrin provided advice to the committee. Mercer are appointed as actuaries to the Company's pension scheme. Watson Wyatt Consultants provide advice to the Committee on pension issues.

The committee met four times during 2007 with each member attending as follows:

Name	Number of meetings held whilst a Committee member	Number of meetings attended by Committee member
Louise Patten	4	4
Ian Cheshire	4	3
Rod Kent	4	4
George Cox	4	4

Remuneration policy

The overall aim of the Committee is to ensure that the Group's remuneration policies attract, retain and motivate the Executive Directors. The Committee considers total remuneration to be the true measure of reward and considers the level and impact of the package in its totality as well as individual elements. Total remuneration for Executive Directors is geared heavily towards performance.

The main remuneration principles are to:

- provide competitive total remuneration for on-target performance, with the potential to achieve outstanding total remuneration for superior performance;
- provide Executive Directors with competitive levels of total remuneration with respect to comparable companies in the UK retail financial services sector; and
- provide share-based incentive plans that facilitate the building of a significant stake in the Company by Executive Directors and keep a balance between short and long-term focus.

As Bradford & Bingley have few direct comparators, the Remuneration Committee considers a range of data sources in forming a judgement on competitive levels of total remuneration. The primary reference points are FTSE 100 retail financial services companies that predominantly operate in the UK market. The Committee takes into account the size of Bradford & Bingley when determining appropriate positioning against these benchmarks.

During the year, the Remuneration Committee conducted a review of remuneration in order to ensure consistency with their policy. The review identified a significant shortfall in total remuneration levels against the desired market position and identified that changes were necessary to make the package more closely aligned with the Group's business strategy. As a result, the Remuneration Committee agreed to introduce a new one-off incentive plan, the Executive Incentive Scheme ('EIS'), payable entirely in shares and restricted for three years. This was intended as an interim solution for 2007 only to ensure competitiveness. In addition, the Committee is proposing some changes to the Executive Incentive Plan ('EIP'), to apply from 2008, in order to address the issues identified in the review for the longer term. These changes are detailed on page 35.

Remuneration for 2007

The table below summarises the remuneration elements for 2007.

Base salary

Base salaries for Executive Directors were reviewed in July. When determining the salary of the Executive Directors, the Committee takes into account:

- base salaries of comparable roles within FTSE 100 retail financial services businesses which operate predominantly in the UK;
- the performance of the Group;
- the performance of the individual Executive Director; and
- the individual Executive Director's experience and responsibilities.

Base salary is the only element of pay that is pensionable.

Executive Incentive Scheme 2007

In 2007, following a benchmarking review, it was identified that the total remuneration package was positioned significantly below market practice. The Remuneration Committee was keen to address this to ensure that the Executive Directors were retained and motivated to drive performance within the Group and assist in delivering the business strategy.

The EIS 2007, delivers an award of up to a maximum of 150% of base salary for delivering key strategic objectives and over achieving personal objectives, paid entirely in restricted shares vesting in 2011. The scheme is based on robust and genuinely stretching targets. The EIS 2007 was a one-off arrangement and will not operate in 2008.

Governance

Directors' remuneration report continued

The Executive Incentive Plan
The EIP was introduced to encompass both annual and three year performance. The EIP applies to those individuals whose personal performance has a significant impact on the Group's results, namely the Executive Directors and certain other senior executives. In 2007 there were 18 participants in total.

Short-term performance component
Under the EIP, the short-term component is composed of two equal parts, one of cash and one of deferred shares, both subject to the achievement of pre-determined short-term performance measures during the year. For both components 'on-target' performance results in a payout of 30% of base salary and a maximum of 60% of base salary.

The performance measures are reviewed annually to ensure they are appropriate to the current market conditions and the Company's goals and priorities. Once set, they are not normally adjusted during the year. No changes were made over the course of the past financial year.

Performance-related payments earned for the past year totalled on average 35% of annual salary in cash and 35% of annual salary in deferred shares. The value of the deferred shares element will be disclosed at the time of vesting in the relevant report.

Long-term performance component
If the Company performs strongly during the three year deferral period, participants will be entitled to an additional award of matching performance shares. The performance conditions determining the level of match to be applied to the shares relating to 2007 performance will be as follows:

Compound underlying EPS growth	Share match
< RPI + 3% pa	Nothing
= RPI + 3% pa	1 x match
= RPI + 5% pa	2 x match
= RPI + 8% pa	3 x match (upper limit)

Matching is calculated on a pro-rata basis between the above points, we see this as the simplest and fairest method of calculating matching awards. Underlying EPS growth was chosen as the performance measure for the EIP as something for which the Executive Directors can be held directly accountable by focusing on internal financial performance only.

Total remuneration is heavily geared to performance. At maximum performance base salary represents 20% of the total package.

The value of pensions has been excluded from the calculations as these values can vary significantly from year to year and from person to person.

Remuneration elements for 2007

	Purpose	Performance measure
Base salary	- Positions the role and the individual fairly within the market for executive talent	- Individual contribution and sustained value in the market
EIS 2007 - Shares	- Provides focus on the delivery of key strategic and personal objectives - Introduced for 2007 only to ensure competitiveness of total remuneration compensation package - Acts as a retention tool	- Contribution to strategy - Personal performance targets
EIP - Cash	- Provides focus on the delivery of the financial targets set out in the annual budget - Motivates the achievement of strategic annual goals/milestones	- Group financial performance measured through underlying profit before tax - Key personal objectives
EIP - Deferred shares	- Provides focus on the delivery of the financial targets set out in the annual budget - Encourages personal shareholding - Acts as a retention tool	- Group financial performance measured through underlying profit before tax - Key personal objectives
Matching EIP shares	- Encourages personal shareholding - Reflects sustained delivery of earnings growth - Supports long-term creation of shareholder value - Acts as a retention tool	- Underlying EPS growth on matching shares

Remuneration for 2008
It is proposed that from 2008 the short-term performance components of both cash and deferred shares will be increased to 100% of salary for maximum performance and 50% at on-target performance, for the Executive Directors.

Non-financial measures are being introduced to encourage greater focus on broader business results and to support the future success of the business. These will operate alongside the existing measures of individual contribution and Group underlying profit before tax.

The maximum number of matching shares will be reduced to 2.5 for each deferred share for 2008.

For matching awards made from 2009 (in respect of deferred awards relating to 2008 performance) TSR will be introduced as a second performance condition with equal weighting to the current performance condition of underlying EPS.

The addition of TSR as a performance measure creates a balance between performance conditions that are more directly within management control and conditions that are aligned with ultimate shareholder outcomes over the performance period.

50% of the award ('TSR Award') will be based on a condition measuring the Group's TSR against eleven UK focused FTSE 100 Retail Financial Services companies. In order to achieve the full matching TSR Award, the Group's TSR performance must exceed the median TSR of the constituents of the index by an average of 6% per annum with straight line vesting between these points as follows:

Performance below median	Nil
Performance at median or above	1 x match
Performance at median + 6% pa	2.5 x match (upper limit)

The other 50% of the award ('EPS Award') will be based on compound underlying EPS growth as follows:

< RPI + 3% pa	Nil
= RPI + 3% pa	1 x match
= RPI + 5% pa	1.75 x match
= RPI + 8% pa	2.5 x match (upper limit)

Pensions and other benefits
Roger Hattam and Mark Stevens, who were both appointed as Executive Directors with effect from 1 May 2007, are active members of the final salary based Staff Pension Scheme for basic salary up to the earnings cap (currently £112,800 pa).

From 1 July 2007, they both receive a 30% salary supplement in respect of their basic salary above the earnings cap. Prior to this date, they were receiving employer contributions of 15% of their basic salary, in excess of the earnings cap, into the defined contribution based Stakeholder Plan with Investment Solutions Limited.

Steven Crawshaw and Robert Dickie receive a 30% salary supplement on their full basic salary and are not accruing any future pension benefits. They both have deferred pension benefits, in the final salary based Staff Pension Scheme, that increase in line with their future basic salary levels.

At the start of 2007, Chris Willford was receiving a 20% salary supplement on his full basic salary, in lieu of pensions accrual. From 1 July 2007, this was increased to 30% of his full basic salary.

Until his resignation as Executive Director with effect from 1 May 2007, Chris Gillespie was participating in the defined contribution based Stakeholder Plan with Investment Solutions Limited. The employer contribution to this arrangement was 15% of his full basic salary.

From 1 July 2007, the lump sum life assurance cover was increased to 15 times full basic salary for all Executive Directors.

Changes to the EIP

Element	2007	Proposed for 2008
Cash element	- Underlying profit before tax, personal objectives - Maximum 60% base salary	- Underlying profit before tax, personal objectives and range of key business performance indicators - Maximum 100% base salary
Deferred element	- Underlying profit before tax, personal objectives - Maximum 60% base salary	- Underlying profit before tax, personal objectives and range of key business performance indicators - Maximum 100% base salary
Matching shares	- Growth in Earnings per share ('EPS') - Maximum match of 3 shares for each share held	Based on - 50% Growth in EPS - 50% Relative TSR Performance vs Peer Group - Maximum match of 2.5 shares for each share held

In line with typical market practice, other contractual benefits are provided in the form of a company car (or cash allowance), housing allowance, private medical insurance and permanent disability and accident insurance.

Contracts
Group policy is to employ Executive Directors on one year rolling contracts (that expire at their respective normal retirement ages) although, on recruitment, longer initial terms may be approved by the Remuneration Committee covering a transition period. The principle applied on termination is that all legal and contractual arrangements are met, with no additional payments. Executive Directors receive a maximum of 12 months' basic salary and other contractual benefits (as outlined above) in the event of the Company terminating their contract without notice for any reason other than gross misconduct (when there will be no compensation). There are no special provisions relating to termination of employment following a change in control of the Group.

Employee share plan
The Company continues to encourage wider share ownership through the use of a savings related share purchase scheme. All eligible employees, including Executive Directors, may participate in the Group's Savings related share option scheme. Under the Group's savings related share purchase scheme participants are granted options over Bradford & Bingley plc shares. The Group operates both a three and a five year savings scheme. For the 2007 grant, the discount was 20% of the market value of a share at the time the option was granted. Following the 2007 invitation, approximately 37% of employees (including Executive Directors) were participants.

Chairman and Non-executive Directors' fees
Fee levels for the Chairman are determined by the Remuneration Committee with reference to a similar peer group to that used for Executive Directors and other senior executives. Consistent with current best practice, the Chairman is not eligible to participate in any form of performance-related incentive plan.

Fee structure of Non-executive Directors

Name	Basic Chairman/ Non-executive fee	Chairman of Audit Committee	Chairman of Remuneration Committee	Chairman of Balance Sheet Management Committee	Senior Independent Director	Total fees
Rod Kent	£265,000					£265,000
Louise Patten	£48,000		£10,000			£58,000
Ian Cheshire	£48,000					£48,000
Stephen Webster	£48,000	£22,000				£70,000
Nicholas Cosh	£48,000			£22,000	£5,000	£75,000
George Cox	£48,000					£48,000
Michael Buckley	£48,000					£48,000

Governance

Directors' remuneration report continued

Fee levels for the Non-executive Directors are determined by a committee, the current membership being the Chairman, the Group Chief Executive and the Group Finance Director. Fee levels were reviewed in 2006 and increased with effect from 1 January 2007. Independent advice, on best practice and market fee levels, was obtained during the year, taking into account the responsibilities and time commitment of each Non-executive Director.

The Non-executive Directors do not participate in any incentive arrangements and do not have service contracts. Each receives a letter of engagement indicating that their initial term of appointment will be three years. Non-executive Directors do not receive any other benefits.

The policy of the Group is to review the fee levels and incentive arrangements from time to time.

The table on the previous page shows the fee structure of Non-executive Directors effective from 1 January 2007.

Non-executive directorships

Executive Directors who hold Non-executive Directorships in other companies are permitted to retain their earnings from these posts. Currently, none of the Company's Executive Directors hold paid Non-executive appointments elsewhere.

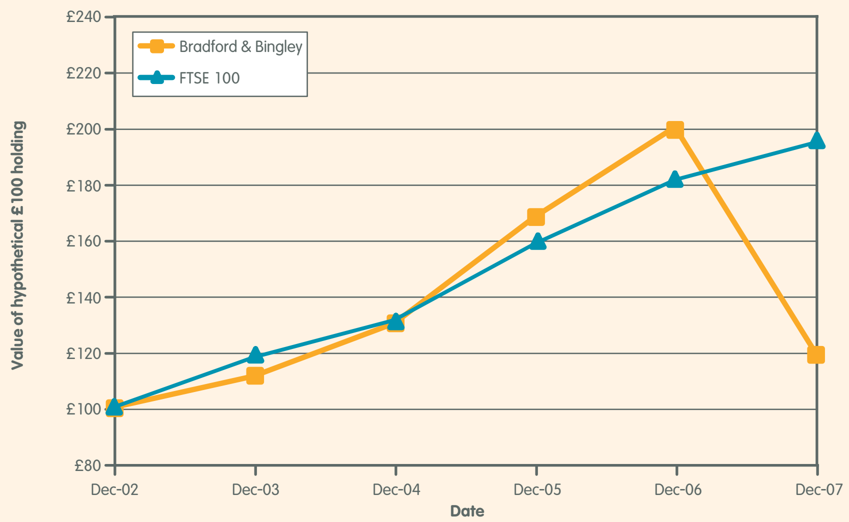
Historic TSR Performance

Bradford & Bingley was a constituent member of the FTSE 100 index for the first half of the year. The graph below shows Bradford & Bingley's TSR compared with the companies comprising the FTSE 100 index over the past five years.

Compliance

This report sets out the framework of our remuneration policies and the tables show how this framework is applied to each individual Director in the year under review. The tables on pages 37 to 39 have been audited in compliance with the Regulations.

Historical TSR performance growth in the value of a hypothetical £100 holding over the period of 5 years - FTSE 100 comparison based on spot values.



Governance

Directors' service contracts				
Executive Director	Age at 31 Dec 2007	Date of service contract	Company's notice period	Director's notice period
Steven Crawshaw	**46**	06 Apr 1999	12 months	12 months
Robert Dickie	**48**	31 Dec 2002	12 months	12 months
Chris Willford	**45**	30 Sep 2005	12 months	12 months
Roger Hattam	**39**	01 May 2007	12 months	12 months
Mark Stevens	**38**	01 May 2007	12 months	12 months

Directors' emoluments for the year ended 31 December 2007

£s	Salary/fees	Benefits	Payment in lieu of pension	Short term cash element 2007	Total emoluments 2007	Short term cash element 2006	Total emoluments 2006
Executive							
Steven Crawshaw	640,000	8,548	192,000	**272,000**	**1,112,548**	360,000	1,045,913
Chris Willford	412,500	25,572	105,000	**157,500**	**700,572**	187,500	628,241
Robert Dickie	309,550	12,085	92,865	**66,000**	**480,500**	144,550	491,293
Chris Gillespie (resigned 1 May 2007)	104,150	7,817	-	**-**	**111,967**	144,550	450,673
Roger Hattam (appointed 1 May 2007)	220,000	7,466	32,581	**132,000**	**392,047**	-	-
Mark Stevens (appointed 1 May 2007)	220,000	7,466	32,581	**132,000**	**392,047**	-	-
Total	1,906,200	68,954	455,027	**759,500**	**3,189,681**	836,600	2,616,120
Non-executive							
Rod Kent	265,000	-	-	**-**	**265,000**	-	210,000
Nicholas Cosh	71,250	-	-	**-**	**71,250**	-	60,000
George Cox (retired 31 December 2007)	53,250	-	-	**-**	**53,250**	-	47,500
Stephen Webster	70,000	-	-	**-**	**70,000**	-	60,000
Ian Cheshire	48,000	-	-	**-**	**48,000**	-	42,500
Louise Patten	54,667	-	-	**-**	**54,667**	-	42,500
Michael Buckley (appointed 26 July 2007)	20,738	-	-	**-**	**20,738**	-	-
Total	582,905	-	-	**-**	**582,905**	-	462,500
Total Directors' emoluments	2,489,105	68,954	455,027	**759,500**	**3,772,586**	836,600	3,078,620

Notes
Short-term performance remuneration shown above reflects amounts payable in respect of 2007 performance. Taxable benefits received by Directors consist principally of the provision of a company car, health benefits and, housing allowance. An amount in lieu of pension entitlement is shown separately. The 'Total Emoluments' reflect payments made to Directors for the period they served on the Board during 2006. Total emoluments for Roger Hattam and Mark Stevens reflect remuneration for their time as directors. Under the EIS 2007, awards, as a percentage of salary, paid as deferred shares, were: Steven Crawshaw 100%, Chris Willford 100%, Roger Hattam 100%, and Mark Stevens 100%. These shares were granted in February 2008.

Directors' accrued pension entitlements

(£000s)	Age as at 31 Dec 2007	Accrued pension entitlement 31 Dec 2007	Change in accrued benefit during 2007	Transfer value at 31 Dec 2007	Transfer value at 31 Dec 2006	Change in transfer value during 2007	Transfer value of increase in accrued pension 31 Dec 2007	Company's pension contribution 2007
Executive								
Steven Crawshaw	**46**	**125**	**12**	**1,876**	1,305	**571**	**100**	**-**
Robert Dickie	**48**	**29**	**2**	**450**	320	**130**	**20**	**-**
Chris Gillespie (resigned 1 May 2007)	**44**	**-**	**-**	**-**	-	**-**	**-**	**15**
Roger Hattam (appointed 1 May 2007)	**39**	**30**	**3**	**350**	236	**109**	**9**	**14**
Mark Stevens (appointed 1 May 2007)	**38**	**7**	**2**	**65**	37	**28**	**11**	**14**

Notes
Pension disclosures are reported above in accordance with Directors' Remuneration Report Regulations 2002. The transfer values reported above reflect the capital value of the relevant pension assessed under market conditions at the end of 2007 and 2006 respectively. The change in transfer value during 2007 is reduced by the Directors' contributions to the scheme during 2007. The increase in accrued pension entitlement represents the change in the annual pension to which each Director is entitled as a result of changes in pensionable earnings, excluding inflation, and increases in pensionable service. Benefits have been valued at a retirement age of 60, with an adjustment made to the post 1 April 2005 benefits to reflect the fact these are reduced if paid before age 65. Steven Crawshaw and Robert Dickie ceased accrual on 5 July 2006. Their benefits continue to increase with pensionable salary rises. Accrued pensions for Steven Crawshaw and Robert Dickie will only be known precisely once they leave or retire. Their total pension at normal retirement date was accruing based on a target of 2/3rds of their final pensionable salary, offset by retained benefits in other pension schemes. Chris Gillespie was not a member of the defined benefit pension scheme but the Company contributed to a money purchase scheme until his resignation. Pension disclosures for Roger Hattam and Mark Stevens reflect entitlements, not only for their time as Directors, but for the whole of 2007. Roger Hattam and Mark Stevens have accrued defined pension entitlement as well as company contribution benefits to a money purchase scheme (for further details see page 35). The Trustees have reviewed the transfer value basis during 2007, and part of this is reflected in the change in transfer value. In 2007, pension payments due to former Directors amounted to £0.3m (2006: £0.3m).

Governance

Directors' remuneration report continued

Directors' share option grants

	At 31 Dec 2006	Granted in year	Exercised	Lapsed	At 31 Dec 2007	Exercise price (p)	Earliest exercise date	Last exercise date	Market price on exercise (p)	Date of exercise
Steven Crawshaw										
Executive share option scheme										
Prior to appt as Executive Director	48,863	-	-	-	**48,863**	291.83	Mar-04	Mar-11		
Post appt as Executive Director	60,205	-	-	-	**60,205**	315.58	Mar-05	Mar-12		
	81,655	-	-	-	**81,655**	281.67	Feb-06	Feb-13		
Savings-related share option scheme										
	4,331	-	-	-	**4,331**	371.66	May-11	Oct-11		
Robert Dickie										
Executive share option scheme										
Prior to appt as Executive Director	81,655	-	-	-	**81,655**	281.67	Feb-06	Feb-13		
Roger Hattam										
Executive share option scheme										
Prior to appt as Executive Director	3,149	-	-	-	**3,149**	311.67	Sept-04	Sept-11		
Prior to appt as Executive Director	16,160	-	-	-	**16,160**	315.58	Mar-05	Mar-12		
Prior to appt as Executive Director	21,301	-	-	-	**21,301**	281.67	Feb-06	Feb-13		
Savings-related share option scheme										
Prior to appt as Executive Director	3,851	-	3,851	-	-	244.74	May-07	Oct-07	451.25	9-May-07
	-	2,535	-	-	**2,535**	372.73	May-10	Oct-10		
Mark Stevens										
Savings-related share option scheme										
Prior to appt as Executive Director	1,836	-	-	-	**1,836**	257.93	May-08	Oct-08		
	-	1,267	-	-	**1,267**	372.73	May-10	Oct-10		
Chris Willford										
Savings-related share option scheme										
	-	1,317	-	-	**1,317**	372.73	May-12	Oct-12		
Chris Gillespie										
Savings-related share option scheme										
	1,006	-	-	1,006	-	371.66	May-09	Oct-09		

Notes
The exercise of share options is subject to a performance condition related to the improvement of the Company's EPS.
No Executive Share Options have been granted since 2003.

Governance

Directors' executive incentive plan

	At 31 Dec 2006	Deferred shares awarded in year	Vested	Lapsed	At 31 Dec 2007	Award value (p) per share	Performance period ends	Vesting date	Performance conditions for matching shares	Market price on vesting (p)	Date of vesting
Steven Crawshaw	54,752	-	-	-	**54,752**	323.00	Dec-07	Feb-08	EPS growth		
	61,338	-	-	-	**61,338**	470.75	Dec-08	Feb-09	EPS growth		
	-	78,260	-	-	**78,260**	460.00	Dec-09	Feb-10	EPS growth		
Robert Dickie	31,026	-	-	-	**31,026**	323.00	Dec-07	Feb-08	EPS growth		
	23,791	-	-	-	**23,791**	470.75	Dec-08	Feb-09	EPS growth		
	-	31,423	-	-	**31,423**	460.00	Dec-09	Feb-10	EPS growth		
Roger Hattam	20,684	-	-	-	**20,684**	323.00	Dec-07	Feb-08	EPS growth		
	18,056	-	-	-	**18,056**	470.75	Dec-08	Feb-09	EPS growth		
	-	26,086	-	-	**26,086**	460.00	Dec-09	Feb-10	EPS growth		
Mark Stevens	20,684	-	-	-	**20,684**	323.00	Dec-07	Feb-08	EPS growth		
	18,056	-	-	-	**18,056**	470.75	Dec-08	Feb-09	EPS growth		
	-	26,086	-	-	**26,086**	460.00	Dec-09	Feb-10	EPS growth		
Chris Willford	32,926	-	-	-	**32,926**	470.75	Dec-08	Feb-09	EPS growth		
	-	40,760	-	-	**40,760**	460.00	Dec-09	Feb-10	EPS growth		
Chris Gillespie	24,783	-	-	24,783	-	470.75	Dec-08	Feb-09	EPS growth		
	-	31,423	-	31,423	-	460.00	Dec-09	Feb-10	EPS growth		

Notes
Deferred shares will vest at the end of the three year period. Matching shares will be awarded subject to the achievement of EPS growth equivalent to RPI plus 3 - 8%. The maximum matching share multiple will be three times the deferred amount of shares awarded in the year in respect of the bonus payable for the performance year ending 31 December 2006. For a full description see the Directors' Remuneration Report on pages 33-34.

Directors' performance share plan awards

	At 31 Dec 2006	Awarded in year	Vested	Lapsed	At 31 Dec 2007	Award value (p) per share	Performance period ends	Vesting date	Performance conditions	Market price on vesting (p)	Date of vesting
Steven Crawshaw	84,990	-	45,248	39,742	-	305.92	Dec-06	Feb-07	Standard	426.55	6-Mar-07
	84,989	-	20,150	64,839	-	305.92	Dec-06	Feb-07	Stretch	426.55	6-Mar-07
Robert Dickie	80,904	-	43,073	37,831	-	305.92	Dec-06	Feb-07	Standard	426.55	6-Mar-07
	80,903	-	19,182	61,721	-	305.92	Dec-06	Feb-07	Stretch	426.55	6-Mar-07
Roger Hattam	24,516	-	13,052	11,464	-	305.92	Dec-06	Feb-07	Standard	426.55	6-Mar-07
Mark Stevens	19,612	-	10,441	9,171	-	305.92	Dec-06	Feb-07	Standard	426.55	6-Mar-07

Notes
Final awards under the Performance Share Plan ('PSP') were made in February 2004 to Executive Directors and other senior executives. Awards under the PSP will vest subject to out-performing similar financial services companies over the longer term, as measured by TSR relative to a comparator group. Details of the performance conditions on these awards can be found in the 2004 Report and Accounts.

On 31 December 2007, the closing mid market price of ordinary shares in Bradford & Bingley plc was 268.00p and the range during the year to 31 December 2007 was 254.00p to 481.75p.

Approved by the Board on 12 February 2008 and signed on its behalf by:

Louise Patten, Chairman of the Remuneration Committee

Governance

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS, as adopted by the EU, and applicable law and have elected to prepare the Company financial statements on the same basis.

The Group and Company financial statements are required by law and IFRS, as adopted by the EU, to present fairly the financial position of the Group and the Company and the performance for that period; The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the Directors are required to:

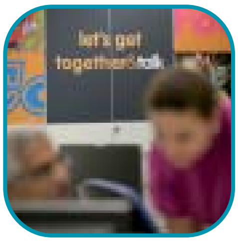
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS, as adopted by the EU; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

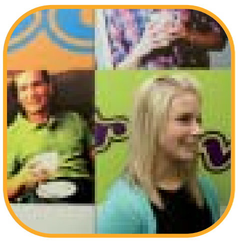
Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Steven Crawshaw
Group Chief Executive
12 February 2008








The accounts

Independent Auditor's report to the members of Bradford & Bingley plc

We have audited the Group and parent Company Financial Statements ('the Financial Statements') of Bradford & Bingley plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Statements of Recognised Income and Expense, the Group and Company Cash Flow Statements and related notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report & Accounts, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') are set out in the Statement of Directors' Responsibilities on page 40.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Financial Statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report & Accounts and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Company Financial Statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2007; and
- the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Financial Statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
12 February 2008

Consolidated Income Statement
For the year ended 31 December

	Note	2007 £m	2006 £m
Interest receivable and similar income		**2,967.5**	2,383.0
Interest expense and similar charges		**(2,419.8)**	(1,872.8)
Net interest income	3	**547.7**	510.2
Fee and commission income		**81.7**	91.7
Realised gains less losses on financial instruments	39g	**6.5**	2.1
Fair value movements	39g	**(49.7)**	(0.1)
Hedge ineffectiveness	39g	**(23.5)**	0.3
Other operating income		**9.6**	5.2
Net operating income		**572.3**	609.4
Administrative expenses			
- Ongoing	4	**(280.2)**	(271.6)
- Compensation	4	**-**	(89.4)
Loan impairment loss	11	**(22.5)**	(7.4)
Investment impairment loss	13	**(94.4)**	-
Loss on sale of assets	2	**(58.0)**	-
Non-operating income	18	**8.8**	5.7
Profit before taxation		**126.0**	246.7
Taxation	6	**(32.8)**	(69.0)
Profit for the financial year		**93.2**	177.7
Attributable to equity shareholders		**93.2**	177.7
Earnings per share:			
- Basic	7	**14.9p**	28.2p
- Diluted	7	**14.9p**	28.1p

The notes on pages 47 to 90 form part of these Financial Statements.
The Company's profit after tax for the financial year was £38.2m (2006: £151.4m). As permitted by Section 230 of the Companies Act 1985, the Company's Income Statement has not been presented in these Financial Statements.

The Group's business and operations comprise one single activity, principally within the United Kingdom. The results above arise from continuing activities and are attributable to the equity shareholders.

Balance Sheets

At 31 December

	Note	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Assets					
Cash and balances at central banks		**209.2**	202.6	**209.2**	202.6
Treasury bills		**185.0**	-	**185.0**	-
Loans and advances to banks	9	**2,392.1**	3,301.4	**1,901.9**	2,413.5
Loans and advances to customers	10	**40,444.5**	36,131.7	**51,435.4**	41,895.5
Fair value adjustments on portfolio hedging	39	**(53.8)**	(70.4)	**(53.8)**	(70.4)
Debt securities	13	**6,778.7**	5,299.9	**7,398.2**	4,840.9
Derivative financial instruments	39g	**1,175.4**	291.0	**468.6**	278.2
Prepayments and accrued income	14	**28.5**	25.0	**22.1**	20.4
Shares in Group undertakings	15	**-**	-	**543.7**	543.7
Other assets	16	**653.7**	21.3	**652.3**	19.9
Current tax asset		**-**	-	**39.3**	-
Deferred tax assets	17	**23.8**	5.7	**21.8**	8.0
Property, plant and equipment	18	**106.5**	90.8	**95.8**	79.5
Intangible assets	19	**41.0**	55.2	**12.6**	21.9
Total assets		**51,984.6**	45,354.2	**62,932.1**	50,253.7
Liabilities					
Deposits by banks	20	**2,074.4**	1,512.4	**1,658.5**	885.8
Customer accounts	21	**24,152.6**	22,201.0	**43,601.8**	34,542.8
Fair value adjustments on portfolio hedging	39	**(5.9)**	-	**(5.9)**	-
Derivative financial instruments	39g	**498.6**	493.4	**483.2**	408.8
Debt securities in issue	22	**22,308.1**	17,841.3	**14,409.1**	11,246.5
Other liabilities	23	**141.2**	115.6	**128.1**	107.9
Accruals and deferred income	24	**84.1**	84.4	**85.4**	84.1
Current tax liabilities		**23.7**	96.0	**-**	48.9
Post-retirement benefit obligations	25	**22.0**	83.2	**22.0**	83.2
Provisions	26	**59.7**	94.8	**59.7**	94.8
Subordinated liabilities	27	**1,253.7**	1,247.0	**1,565.3**	1,561.8
Other capital instruments	28	**161.6**	165.2	**-**	-
Total liabilities		**50,773.8**	43,934.3	**62,007.2**	49,064.6
Equity					
Capital and reserves attributable to equity holders					
- Share capital	29, 30	**154.4**	158.6	**154.4**	158.6
- Share premium reserve	30	**4.9**	4.9	**4.9**	4.9
- Capital redemption reserve	30	**29.2**	25.0	**29.2**	25.0
- Other reserves	30	**(122.3)**	19.1	**(122.3)**	19.2
- Retained earnings	30	**1,144.6**	1,212.3	**858.7**	981.4
Total attributable equity		**1,210.8**	1,419.9	**924.9**	1,189.1
Total equity and liabilities		**51,984.6**	45,354.2	**62,932.1**	50,253.7

The notes on pages 47 to 90 form part of these Financial Statements.

The Financial Statements were approved by the Board of Directors and authorised for issue on 12 February 2008 and signed on its behalf by:

Steven Crawshaw
Group Chief Executive

Chris Willford
Group Finance Director

Statements of Recognised Income and Expense
For the year ended 31 December

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Available-for-sale instruments				
- Net losses recognised in equity during the year	**(82.9)**	(8.8)	**(83.0)**	(8.7)
- Amounts transferred from equity and recognised in profit during the year	**(3.4)**	(2.1)	**(3.4)**	(2.1)
Cash flow hedges				
- Net (losses)/gains recognised in equity during the year	**(110.5)**	16.6	**(110.5)**	16.6
- Amounts transferred to profit and loss for the year	**(2.8)**	(3.0)	**(2.8)**	(3.0)
Actuarial gains on post-retirement benefit obligations	**53.3**	20.1	**53.3**	20.1
Taxation on the above items taken directly to equity	**42.8**	(11.6)	**42.8**	(11.6)
Net (expense)/income recognised directly in equity	**(103.5)**	11.2	**(103.6)**	11.3
Profit for the financial year	**93.2**	177.7	**38.2**	151.4
Total recognised (expense)/income for the financial year	**(10.3)**	188.9	**(65.4)**	162.7

Cash Flow Statements

For the year ended 31 December

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Cash flows from operating activities				
Profit for the financial year	**93.2**	177.7	**38.2**	151.4
Adjustments to reconcile net profit to cash flow from/(used in) operating activities				
- Income tax expense	32.8	69.0	2.6	37.1
- Depreciation and amortisation	22.6	18.0	12.2	9.6
- Loan impairment loss	29.3	14.9	4.6	4.1
- Investment impairment loss	94.4	-	94.4	-
- Recoveries of loans and advances previously written off	(6.8)	(7.5)	(4.5)	(5.0)
- Loss on sale of assets	58.0	-	58.0	-
- Interest on subordinated liabilities and other capital instruments	91.7	89.6	102.4	98.6
- Net profit on sale of property, plant and equipment and intangible assets	(4.3)	(5.5)	(4.5)	(5.7)
- Gains less losses on sale of debt securities	(3.4)	(2.1)	(3.4)	(2.1)
Cash flows from operating activities before changes in operating assets and liabilities	**407.5**	354.1	**300.0**	288.0
Net (increase)/decrease in operating assets				
- Loans and advances to banks and customers	(3,395.3)	(2,782.6)	(12,774.0)	(9,541.7)
- Net proceeds from sale of assets	3,294.8	-	3,294.8	-
- Acquisitions of mortgage portfolios	(4,337.9)	(2,540.6)	-	-
- Debt securities	(119.3)	426.3	(1,063.3)	296.8
- Derivative financial instruments	(884.4)	(28.2)	(190.4)	(78.2)
- Prepayments and accrued income	(3.5)	8.6	(1.7)	20.2
- Other assets	(632.4)	94.0	(632.4)	84.7
Net increase/(decrease) in operating liabilities				
- Deposits by banks and customer accounts	2,396.0	898.2	7,299.7	5,185.4
- Derivative financial instruments	5.2	162.3	74.4	67.4
- Debt securities in issue	(701.5)	(1,811.8)	329.0	(1,738.8)
- Other liabilities	(35.6)	(54.2)	(41.0)	(50.9)
- Accruals and deferred income	210.1	61.0	171.9	54.3
- Provisions	(35.1)	59.9	(35.1)	59.9
- Income taxes (paid)/received	(80.4)	(27.0)	(61.8)	6.0
- Other non-cash items	(165.9)	198.5	(165.6)	198.2
Net cash used in operating activities	**(4,077.7)**	(4,981.5)	**(3,495.5)**	(5,148.7)
Cash flows from investing activities				
- Purchase of property, plant and equipment and intangible assets	(34.3)	(26.6)	(26.9)	(17.4)
- Proceeds from sale of property, plant and equipment	14.5	8.5	12.2	7.1
- Proceeds from sale of shares in Group undertakings	-	-	-	13.9
Net cash (used in)/from investing activities	**(19.8)**	(18.1)	**(14.7)**	3.6
Cash flows from financing activities				
- Purchase of own shares held to satisfy employee share plans	(18.7)	-	(18.7)	-
- Purchase of own shares for cancellation	(58.6)	-	(58.6)	-
- Proceeds from disposal of own shares	5.2	7.8	5.2	7.8
- Net proceeds from issue of subordinated liabilities	-	250.0	-	250.0
- Repayments of subordinated liabilities	-	(125.0)	-	(125.0)
- Net proceeds from secured funding	6,437.7	6,178.4	6,437.7	6,178.4
- Repayments of secured funding	(1,374.2)	(1,164.8)	(1,254.6)	(1,000.0)
- Interest paid on subordinated liabilities and other capital instruments	(79.7)	(89.0)	(90.5)	(97.5)
- Dividends paid	(126.5)	(119.2)	(126.5)	(119.2)
Net cash from financing activities	**4,785.2**	4,938.2	**4,894.0**	5,094.5
Net increase/(decrease) in cash and cash equivalents	**687.7**	(61.4)	**1,383.8**	(50.6)
Cash and cash equivalents at beginning of year	3,647.6	3,709.0	2,684.6	2,735.2
Cash and cash equivalents at end of year	**4,335.3**	3,647.6	**4,068.4**	2,684.6
Represented by cash and assets with original maturity of three months or less within				
- Cash and balances at central banks	21.0	17.8	21.0	17.8
- Treasury bills	185.0	-	185.0	-
- Loans and advances to banks	2,137.5	3,088.5	1,901.9	2,291.3
- Debt securities	1,991.8	541.3	1,960.5	375.5
	4,335.3	3,647.6	**4,068.4**	2,684.6
Balances maintained with the Bank of England	188.2	184.8	188.2	184.8

The Group is required to maintain balances with the Bank of England as shown above. These balances are not included in cash and cash equivalents for the purposes of the Cash Flow Statement.

Notes to the Financial Statements

1. Principal accounting policies
Bradford & Bingley plc ('the Company') is a public limited company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales.

These Financial Statements were authorised for issue by the Directors on 12 February 2008 and will be put to the shareholders for approval at the Company's Annual General Meeting to be held on 22 April 2008.

(a) Statement of compliance
The Group Financial Statements incorporate on a fully consolidated basis the Financial Statements of the Company and those entities (including special purpose structures) which are controlled by the Company (its subsidiaries), together referred to as 'the Group'. The Company Financial Statements present information about the Company as a separate entity and not about its Group.

Both the Company Financial Statements and the Group Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ('adopted IFRS'). In publishing the Company Financial Statements here together with the Group Financial Statements, the Company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual Income Statement and related notes.

For these 2007 Financial Statements, including the 2006 comparative financial information, the Group and Company have adopted for the first time the following statements:
- The Capital Disclosures amendment to IAS 1 'Presentation of Financial Statements' issued by the IASB in August 2005: this relates to disclosures only and has no impact on the Group's or the Company's Income Statements, Balance Sheets or Cash Flow Statements;
- IFRS 7 'Financial Instruments: Disclosures' issued by the IASB in August 2005 (including the consequential amendments to IAS 32 Financial Instruments Presentation): this relates to disclosures only and has no impact on the Group's or the Company's Income Statements, Balance Sheets or Cash Flow Statements;
- IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies' is also mandatory for 2007 Financial Statements, but is not relevant to the Group or Company;
- IFRIC 8 'Scope of IFRS 2' issued by IFRIC in January 2006: this applies where share-based payments are made for less than fair value, and no such payments have been made by the Group or Company;
- IFRIC 9 'Reassessment of Embedded Derivatives' issued by IFRIC in March 2006: this requires entities to reassess whether an embedded derivative should be separated from a host contract when and only when the terms of the host contract are significantly modified. Adoption of this statement had no impact on the Group's or the Company's Income Statements, Balance Sheets or Cash Flow Statements; and
- IFRIC 10 'Interim Financial Reporting and Impairment' issued by IFRIC in July 2006. Under IFRS, impairment losses recognised against certain assets are not eligible for reversal in a subsequent period even if circumstances have improved. (However, this does not apply to impairment on loans and advances and available-for-sale debt securities; impairment losses recognised in respect of such financial instruments should be reversed to the extent that the impairment is no longer required due to events occurring after original impairment.) IFRIC 10 clarifies that a relevant impairment loss recognised in an Interim Financial Report may not be reversed in a subsequent part of the same full financial period of which the Interim Financial Report forms a part. Adoption of IFRIC 10 had no impact on the Group's or Company's Income Statements, Balance Sheets or Cash Flow Statements.

For these 2007 Financial Statements the Group and Company have not adopted the following statements:
- IFRS 8 'Operating Segments' issued by the IASB in November 2006 and mandatory for 2009 financial statements: this relates to disclosures only and adoption would have no impact on the Group's or the Company's Income Statements, Balance Sheets or Cash Flow Statements; and
- IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions' issued by IFRIC in November 2006 and mandatory for 2008 financial statements: adoption of this statement is anticipated to have no material impact on the Group's or Company's Income Statements, Balance Sheets or Cash Flow Statements.

(b) Basis of preparation
The Financial Statements are prepared on the historical cost basis except:

(i) the following assets and liabilities are carried at their fair value:
- derivative financial instruments;
- financial instruments categorised under IAS 39 as 'at fair value through profit or loss'; and
- financial instruments categorised under IAS 39 as 'available-for-sale'; and

(ii) where fair value hedge accounting has been applied the carrying value of hedged items has been adjusted to take account of the fair value of the risk which has been hedged.

In the application of these accounting policies the Directors have made judgements that have a significant effect on the Financial Statements and have also made estimates that have a significant risk of giving rise to material adjustment in the next year; these judgements and estimates are discussed in note 37 to the Financial Statements.

The Directors consider that the accounting policies set out in this note are the most appropriate to the Group's and the Company's circumstances, have been consistently applied both to the Group and the Company in dealing with items which are considered material, and are supported by reasonable and prudent estimates and judgements. The accounting policies have been applied to all periods presented in these Financial Statements and are consistent with the accounting policies used by the Group in preparing its Interim Financial Information for the six months ended 30 June 2007 except for the adoption of the Capital Disclosures amendment to IAS1 and IFRS 7.

The Financial Statements are presented in pounds sterling, which is the currency of the Group's and Company's primary operating environment and its functional currency.

The Group's business and operations comprise one single continuing activity, and hence no segmental analysis has been provided.

(c) Basis of consolidation
The Group's Financial Statements incorporate on a fully consolidated basis the Financial Statements of the Company and those entities (including special purpose structures) which are controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Where subsidiaries have been acquired during a period, their results are consolidated in the Financial Statements from the date control is transferred to the Group. Where subsidiaries have been disposed of, their results are consolidated to the date of disposal. On the acquisition of a business, fair values are attributed to the assets, liabilities and contingent liabilities acquired. Any difference between the consideration given and the fair value of the net assets acquired is capitalised as goodwill.

The Group has securitised various residential mortgage loans, generally by sale or transfer to special purpose structures which in turn issue securities to investors. The special purpose structures are consolidated line by line into the Group Financial Statements if they are, in substance, controlled by the Company. The Group presently receives substantially all of the post tax profit of all the Special Purpose Vehicle ('SPV') entities and hence retains substantially all of the risks and rewards of the securitised loans, and consequently all of the SPVs are fully consolidated.

(d) Interest income and expense
For all financial instruments except derivatives, interest income and expense are recognised in the Income Statement on an Effective Interest Rate ('EIR') basis.

The EIR basis spreads the interest income or interest expense over the expected life of the instrument. The EIR is the rate that at the inception of the instrument exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating the EIR, future cash flows are estimated, considering all contractual terms of the instrument (for example, prepayment options), but potential future credit losses are not considered. The calculation includes all directly

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attributable incremental fees and costs, premia on acquisition of mortgage portfolios and all other premia and discounts as well as interest.

(e) Fee and commission income
Where Value Added Tax (VAT) is charged, income is stated net of VAT.

Commission receivable from the sale of third party Regulated Financial Services products is recognised as income within 'fee and commission income' when the policy goes 'on risk', net of any provision for repayment in the event of early termination by the customer. If the commission is receivable on deferred terms, a deemed interest element of the commission is separated and recognised on an EIR basis over the deferred payment period.

Fee and commission income arises on various other activities and is accounted for within 'fee and commission income' in the Income Statement on an accruals basis as the services are performed. Fee and commission income includes items relating to lending which do not qualify for inclusion in the EIR on the loan.

(f) Post-retirement benefits
The Group operates a number of post-retirement benefit plans for its employees, including defined contribution plans, defined benefit plans and other post-retirement benefits (principally medical). The costs of these plans are charged to the Income Statement and retained earnings in accordance with IAS 19 'Employee Benefits'.

A defined contribution plan is a pension arrangement where the employer pays fixed contributions into a separate fund. The contributions are charged to the Income Statement when employees have rendered the related services, which is generally in the year of contribution.

A defined benefit plan is a pension arrangement that defines an amount of pension benefit that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and salary. The net deficit or surplus on the plan is carried in the Balance Sheet, comprising the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent qualified actuaries using the projected unit credit method. Details of the actuarial assumptions made are provided in note 25. Actuarial gains and losses are charged to retained earnings in full in the period in which they occur and pass through the Statement of Recognised Income and Expense rather than the Income Statement. The Company, being the sponsoring company of the plans, carries on its Balance Sheet the full net deficit or surplus on each plan.

Post-retirement medical benefits are accounted for in the same way as pension benefits, with the present value of the defined benefit obligation being carried as a liability on the Balance Sheet.

(g) Share-based payment
The Group and Company operate various share-based incentive schemes for employees and officers, including a Sharesave Scheme. Grants of shares, share options and other equity instruments are accounted for in accordance with IFRS 2 'Share-based Payment', under which the fair value of awards is measured at the date of grant and charged to the Income Statement over the period to vesting, with a corresponding credit to retained earnings. Further details of the Group's fair value methodology are given in note 31. The charge is made only in respect of the number of awards that are expected to vest; this expected number is revised at each Balance Sheet date and any difference due to estimate revisions is charged or credited to the Income Statement over the period to vesting with a corresponding adjustment to retained earnings. The proceeds received on exercise of options net of any directly attributable transaction costs are credited to retained earnings.

The Group holds some shares in the Company to satisfy share-based payment commitments. These shares are included in the Group's and Company's Balance Sheets within retained earnings at purchase price including transaction costs.

(h) Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes. Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward, and is not discounted to take account of the expected timing of realisation. Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the taxable differences can be utilised. Tax relating to items which are taken directly to reserves is also taken directly to reserves.

(i) Dividends
In accordance with IAS 10 'Events After the Balance Sheet Date' dividends payable on ordinary shares are recognised in retained earnings once they are appropriately authorised and are no longer at the discretion of the Company.

Dividends receivable (including those receivable from other Group entities) are recognised once the right to receive payment is established, in accordance with IAS 18 'Revenue'.

(j) Financial instruments
In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' each financial asset is classified at initial recognition into one of four categories:
(i) Financial assets at fair value through profit or loss;
(ii) Held-to-maturity investments;
(iii) Loans and receivables; or
(iv) Available-for-sale;

and each financial liability into one of two categories:
(v) Financial liabilities at fair value through profit or loss; or
(vi) Other liabilities.

'The Fair Value Option' amendment to IAS 39 permits designation of a financial asset or financial liability as being at fair value through profit or loss under wider circumstances than had previously been allowed. The Company uses this amendment to prevent technical accounting mismatches between the Company and other Group entities in respect of accounting for certain intra-Group swap arrangements; use of this amendment has had no impact on the results or Balance Sheet of the Group.

Measurement of financial instruments is either at amortised cost (categories (ii), (iii) and (vi) above) or at fair value (categories (i), (iv) and (v) above), depending on the category of financial instrument.

Amortised cost is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method; the amortisation is taken to interest income or expense depending on whether the instrument is an asset or a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where a market exists, fair values are based on quoted market prices. For instruments which do not have active markets, fair value is calculated using present value models which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments. Interest income and interest expense on instruments carried at fair value are included in the Income Statement in 'interest receivable and similar income' or 'interest expense and similar charges'. Movements in fair value are recognised in the 'fair value movements' line in the Income Statement, except in the case of instruments classified as 'available-for-sale', in which case the fair value movements are taken to the 'available-for-sale reserve'. On sale or derecognition of an available-for-sale instrument the accumulated fair value movements are transferred from the 'available-for-sale reserve' to the 'realised gains less losses on financial instruments' line of the Income Statement.

Certain certificates of deposit, fixed and floating rate notes and mortgage-backed securities are classified as available-for-sale.

The Group and Company operate a trading book. The assets and liabilities in the trading book are categorised as 'at fair value through profit or loss' and the net trading gains and losses are included in the Income Statement in 'realised gains less losses on financial instruments'.

(k) Recognition and derecognition of financial assets

Purchases and sales of mortgage portfolios are accounted for on the completion date. All other purchases and sales of financial assets are accounted for on the date of commitment to buy or sell (the 'trade date'). A financial asset is derecognised (i.e. removed from the Balance Sheet) only when substantially all of the risks and rewards associated with that asset have been transferred to another party and control is lost. In respect of the Company's secured funding structures, the Company sells to another entity the right to receive the cash flows arising on the loans which have been securitised. However, the Company receives substantially all of the post-tax profit of that entity, and hence retains substantially all of the risks and rewards of the securitised loans. Hence the securitised loans are retained on the Company's Balance Sheet.

(l) Impairment of financial assets

Financial assets, are reviewed for indications of possible impairment throughout the year and at each published Balance Sheet date.

Loans and receivables

For each individual loan which exhibits indications of impairment (which includes all loans 12 or more months in arrears, those in possession and others which management consider to be individually impaired) the carrying value of the loan at the Balance Sheet date is reduced to the net present value of the expected future cash flows associated with the loan, calculated at the loan's original EIR. These cash flows include, where appropriate, estimated amounts recoverable by repossession and sale of the secured property, taking into account a discount on property value to reflect a forced sale. All loans that have been assessed as having no individual impairment are then assessed collectively, grouped by loans with similar risk characteristics. Assessment is made of impairment arising due to events which are believed to have occurred by the Balance Sheet date but had not yet been reported, taking into account the economic climate in the market. This collective impairment is reflected by reducing the carrying value of total loans.

Interest income is recognised on impaired loans by applying the original EIR of the loan to the impaired balance.

A loan is written off and any associated impairment allowance released when and only when the property has been taken into possession and sold. Any subsequent proceeds are recognised on a cash basis and offset against impairment charges in the Income Statement.

Debt securities held

Debt securities are carried at fair value net of impairment as detailed in paragraph (m). Impairment is recognised when the debt security exhibits objective evidence of impairment or is uncollectible. Evidence includes:

- Significant financial difficulty
- Payment defaults
- Renegotiation of terms due to borrower difficulty
- Sustained fall in credit rating
- Significant restructuring
- Disappearance of an active market
- Significant and sustained fall in market price
- Observable data indicating measurable decrease in the estimated future cashflows from a group of financial assets, although the decrease cannot yet be identified within individual assets in the Group.

Movements in the fair value which are a reflection of impairment of the long-term value of the debt security of a Structured Investment Vehicle ('SIV'), would be charged to 'investment impairment loss' in the Income Statement. Investment impairment losses recognised against debt securities would be reversed in a subsequent period if the improvement is related to an event occurring after the initial impairment was recognised.

(m) Debt securities held

Debt securities intended for use on a continuing basis in the Group's activities are classified as 'available-for-sale'. They are carried at fair value net of impairment with movements, excluding impairment provisions, transferred to the 'Available-for-sale reserve'. Debt securities include investments in Structured Investment Vehicles ('SIV's') Principal Protected Notes ('PPNs') and Collateralised Debt Obligations ('CDOs'). The Group has no entitlement to board or management representation in respect of its investment in any SIV, PPN or CDO, and cannot exert influence, and therefore the instruments are considered to fall outside the scope of IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'. SIV and PPN investments earn a guaranteed coupon plus a potential additional variable unguaranteed amount; in these cases the guaranteed coupon is recognised on an EIR basis but unguaranteed amounts are recognised on receipt.

(n) Derivative financial instruments and hedge accounting

The Group enters into derivative contracts in order to manage exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions, in accordance with IAS 39. As explained in note 1(j), the Company has used the provisions of the Fair Value Option amendment to IAS 39 to prevent technical accounting mismatches in respect of intra-Group swap arrangements.

All derivatives are carried at fair value in the Balance Sheet, as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of a derivative includes any interest accrued on that derivative; changes in the fair value of derivatives are charged to the Income Statement; however, by applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives which are used to hedge particular risks can either be mitigated in the Income Statement (fair value hedging) or deferred to reserves (cash flow hedging). The Group uses fair value hedges and cash flow hedges.

One-to-one fair value hedges

Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, any gain or loss in the fair value of the hedging derivatives is recognised in the Income Statement. Provided that the hedge arrangement meets the requirements of IAS 39 to be classed as 'highly effective', the associated hedged item is carried in the Balance Sheet at fair value in respect of the hedged risk, with any gain or loss in that fair value also recognised in the Income Statement. Hence profit volatility is mitigated. The Income Statement immediately recognises any 'ineffectiveness', that is any difference between the fair value movement on the hedging instrument and that on the hedged item. Where a fair value hedge relationship is terminated or deemed not to be highly effective (other than as a result of the hedged item being derecognised from the Balance Sheet due to sale or other reason) the fair value adjustment relating to the terminated hedge relationship is amortised to the Income Statement over the period to the date of maturity of the hedged item. The derivative continues to be carried at fair value.

Portfolio fair value hedges

Where a group of derivatives hedges the interest rate exposure of a group of assets or liabilities, and the hedge meets the requirements of IAS 39 to be classed as 'highly effective', the hedge relationship is accounted for in the same way as a one-to-one fair value hedge except that the Balance Sheet carrying value of the hedged items is not adjusted to fair value; instead the difference between the fair value and carrying value of the hedged items is carried on the Balance Sheet in 'fair value adjustments on portfolio hedging'.

Cash flow hedges

Where a derivative financial instrument hedges the variability in cash flows of an asset or liability, or of a highly probable forecast transaction, the effective portion of the change in fair value of the derivative is taken to the 'cash flow hedge reserve' and the remaining portion is charged immediately to the 'hedge ineffectiveness' line of the Income Statement. Where a cash flow hedge is terminated or deemed not to be effective, the balance remaining in the cash flow hedge reserve is amortised over the remaining life of the hedged item. Where a forecast transaction is cashflow hedged and the transaction is no longer highly probable, the gain or loss still held in the reserve is immediately recognised in the Income Statement.

Hedge effectiveness

At the inception of each hedging arrangement, the relationship between the hedging instruments and the hedged items is documented, as well as the risk management

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objective and strategy. Also documented is an assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging arrangement are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Under IAS 39 a hedge is deemed to be highly effective if effectiveness is forecast to fall, and is actually found to fall, within the 80% to 125% range. Any hedge relationship falling outside these limits is deemed to be ineffective and hedge accounting is discontinued.

Embedded derivatives
Certain financial instruments have derivative features embedded within them. Where the economic characteristics and risks of the embedded derivative are not closely related to those of the host instrument, and where changes in value on the host instrument are not reflected in the income statement the embedded derivative is separated from the host and carried in the Balance Sheet at fair value within 'derivative financial instruments', with gains and losses on the embedded derivative being recognised in the Income Statement in 'fair value movements'. The Group recognises that its holding of synthetic CDO's (where the SPV issuing the CDO contains a credit derivative) contains an embedded derivative if the CDO's originator does not hold the reference assets on its balance sheet or if the sponsor of the CDO is not required to hold the reference assets on its own balance sheet. Consequently the fair value of the credit derivative contract is separated from the host synthetic CDO with changes in its fair value recognised within 'fair value movements'. In accordance with IFRIC 9 'Reassessment of Embedded Derivatives' the decision as to whether to separate and value an embedded derivative is reassessed when and only when the terms of the host contract are significantly modified.

(o) Shares in Group undertakings
In the Financial Statements of the Company, shares in Group undertakings are carried at cost less any impairment. Shares are reviewed at each published Balance Sheet date for any indications of impairment. If there is indication of impairment of any share, the carrying value of the share is reviewed, and any impairment identified is charged immediately in the Income Statement.

(p) Property, plant and equipment
The cost of additions and major alterations to land and buildings, equipment, fixtures and motor vehicles is capitalised. All property, plant and equipment is stated at historical cost less depreciation.

Depreciation is provided so as to write off the cost less the estimated residual value of each significant component of each item of property, plant and equipment over that component's estimated useful life, as follows:
- Land is not depreciated;
- Freehold buildings at 2% per annum on a straight line basis;
- Leasehold properties over the shorter of the lease period and 50 years on a straight line basis;
- Fixtures and fittings at 20% per annum on a straight line basis;
- Motor vehicles at 25% per annum on a reducing balance basis;
- Computer equipment at rates ranging from 20% to 33% per annum on a straight line basis; and
- Other equipment and major alterations to buildings at 10% per annum on a straight line basis.

All items of property, plant and equipment are reviewed annually for impairment.

(q) Leases
Rentals under operating leases are charged to 'administrative expenses' on a straight line basis to the date of change in the rental amount. Typically, operating leases have rent review dates in their terms, several years apart, and between those dates the annual rent remains constant. Any initial rent-free period and any lease premia paid are amortised over the full lease period on a straight line basis.

When the Group enters into a sale and leaseback arrangement, the leaseback is accounted for as a finance lease or an operating lease, according to its terms. If it is a finance lease, and the sale and leaseback gives rise to a profit, the profit is not recognised immediately but is deferred and amortised over the lease term. If it is an operating lease, any profit or loss is accounted for in the period of disposal and the operating lease rentals are charged to administration expenses in the year in which the expenditure is incurred.

(r) Intangible assets
Computer software licences are capitalised as intangible assets where it is probable that expected future benefits will flow to the Group. Thereafter they are carried at cost less accumulated amortisation. Amortisation is provided on a straight line basis over their useful economic lives, which may be up to five years. Those which have a life expectancy at the outset of less than two years are not capitalised but instead their costs are charged to the Income Statement as they arise. Costs that are directly associated with developing identifiable computer software systems are capitalised if the criteria in IAS 38 'Intangible Assets' are satisfied; the main criteria are that the successful completion of the development project is reasonably certain and that the software is expected to generate future economic benefits. Each item of capitalised developed computer software is carried at cost less accumulated amortisation; amortisation is provided on a straight line basis over its estimated useful life. Costs that do not qualify for capitalisation are charged to the Income Statement as they arise.

(s) Debt and equity securities in issue
Issued securities are classed as liabilities if they represent a contractual obligation to deliver cash or another financial asset to another entity. Otherwise they are classed as equity. Any coupon paid on liabilities is accounted for as interest expense on an EIR basis and any coupon on equity as dividends.

On initial recognition, debt issued is measured at its fair value net of directly attributable issue and transaction costs. Subsequent measurement is at amortised cost using the EIR method to amortise attributable issue and transaction costs, premia and discounts over the life of the instrument. These costs are charged along with interest on the debt to 'interest expense and similar charges'. Unamortised amounts are added to or deducted from the carrying value of the instrument.

It is the Group's policy to hedge fixed interest rate risk on debt issued and to apply fair value hedge accounting.

(t) Provisions
Provisions are recognised when, and only when, the following criteria are all met:
- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to net present value using rates which reflect the risks specific to the provision, if the effect of discounting is material.

Provisions are reviewed at each Balance Sheet date and are released if they no longer meet the above criteria.

(u) Cash and cash equivalents
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise balances which are highly liquid and have an original maturity of three months or less.

(v) Foreign currencies
The presentational and functional currency of the Group and Company is pounds sterling. Transactions which are not denominated in pounds sterling are translated into sterling at the spot rate of exchange on the date of the transaction. Monetary assets and liabilities which are not denominated in pounds sterling are translated into sterling at the closing rate of exchange at the Balance Sheet date.

Any foreign exchange gains or losses arising from settlement of transactions at rates different from those at the date of the transaction, and any unrealised foreign currency exchange gains and losses on unsettled foreign currency monetary assets and liabilities, are included in the Income Statement in 'interest receivable and similar income' or 'interest expense and similar charges' depending on whether the underlying instrument is an asset or a liability.

(w) Financial guarantees
The Company applies insurance accounting to financial guarantee contracts, and provides against any claims arising under such contracts.

2. Sale of commercial assets

	Commercial properties £m	Housing associations £m	Total £m
Net proceeds from sale	(1,890.0)	(2,064.0)	(3,954.0)
Book value of assets sold	1,972.1	2,026.6	3,998.7
	82.1	(37.4)	44.7
Less:			
Costs			13.3
Loss on sale of assets			58.0

In April 2007, the Board took the strategic decision to sell our commercial property and housing association mortgage portfolios in order to focus on the higher margin, high growth, specialist mortgage market to maximise future returns and capital efficiency. The sale of the commercial property and housing association loans completed for £4.0bn.

3. Net interest income

	Group 2007 £m	2006 £m
Net interest income	**547.7**	510.2
Average interest-earning assets ('IEA')	**49,743**	42,692
Financed by		
- Interest-bearing liabilities	**47,904**	41,122
- Interest-free liabilities	**1,839**	1,570
Average rates	%	%
- Gross yield on IEA	**5.96**	5.57
- Cost of interest-bearing liabilities	**(5.05)**	(4.55)
Interest spread	**0.91**	1.02
Contribution of interest-free liabilities	**0.19**	0.17
Net interest margin	**1.10**	1.19
Average bank base rate	**5.51**	4.64
Average 3-month LIBOR	**6.00**	4.84
Average 3-year swap rate	**5.81**	5.07

Included within interest receivable and similar income are the following amounts:

	Group 2007 £m	2006 £m
Interest accrued on impaired financial assets	**3.7**	2.8

4. Administrative expenses

	Group 2007 £m	2006 £m
Staff costs (see note 5)	**105.7**	100.5
Property operating lease rentals	**7.7**	7.9
Equipment hire	**0.6**	0.4
Depreciation and amortisation (see notes 18 and 19)	**23.7**	18.2
Other legal and professional services	**26.6**	26.2
IT costs	**42.6**	41.4
Other administrative expenses	**73.3**	77.0
Ongoing administrative expenses	**280.2**	271.6
Compensation costs	**-**	89.4
	280.2	361.0

Compensation costs relate to the provision for potential compensation payments to customers for business written in the past by our independent financial advisory business. The independent financial advisory business which made these sales was closed in 2004.

Notes to the Financial Statements

4. Administrative expenses continued

	Group 2007 £m	Group 2006 £m
Remuneration of auditor and associates		
- Statutory audit of the Company and consolidated accounts	**0.5**	0.5
Fees payable to the Group's auditor and its associates for other services:		
- Auditing of the Company's subsidiaries	**0.1**	0.2
- Other services pursuant to legislation	**0.1**	0.2
- Other services relating to taxation	**-**	0.2
- Regulatory and other services	**0.7**	0.6
Total	**1.4**	1.7

5. Staff costs and numbers

The average number of persons employed during the year was as follows:

	Full time 2007 Number	Full time 2006 Number	Part time 2007 Number	Part time 2006 Number	Full time equivalent 2007 Number	Full time equivalent 2006 Number
Group	**2,451**	2,511	**691**	663	**2,862**	2,892
Company	**1,811**	1,940	**534**	528	**2,246**	2,236

The full time equivalent is based on the average hours worked by employees in the year. The total headcount at each year end was:

	Group 2007 Number	Group 2006 Number	Company 2007 Number	Company 2006 Number
	3,035	3,154	**2,559**	2,445

The aggregate costs of these persons were as follows:

	Group 2007 £m	Group 2006 £m
Wages and salaries	**87.4**	78.9
Social security costs	**8.7**	8.6
Defined benefit pension costs (see note 25d)	**3.0**	6.7
Defined contribution pension costs (see note 25a)	**1.4**	1.2
Other post-retirement benefits costs (see note 25d)	**0.6**	0.5
Equity-settled share based payment (see note 31)	**4.6**	4.6
	105.7	100.5

6. Taxation

	Group 2007 £m	Group 2006 £m
Current taxation expense		
- UK corporation tax on profits for the year	**6.1**	48.5
- Adjustments in respect of previous years	**7.3**	(13.8)
	13.4	34.7
Foreign taxation	**22.1**	20.1
Total current taxation	**35.5**	54.8
Deferred taxation expense		
- Origination and reversal of temporary differences (see note 17)	**(3.4)**	14.2
- Change in rate effective 1 April 2008 on deferred tax items	**0.7**	-
Total taxation expense per the Income Statement	**32.8**	69.0
The following tax was recognised directly in equity during the year		
- Relating to available-for-sale debt securities	**25.9**	3.2
The following tax was recognised in equity during the year in deferred tax		
- Relating to cash flow hedge reserve	**32.3**	(8.9)
- Relating to actuarial gains and losses on post-retirement benefit obligations	**(15.4)**	(5.9)
- Relating to share-based payments	**(1.5)**	0.5
Net credit/(charge) to equity	**41.3**	(11.1)

The 2007 foreign taxation charge includes a charge of £nil (2006: £nil) in respect of previous periods.

6. Taxation continued

The total taxation expense differs from the theoretical amount that would be derived by applying the basic UK corporation tax rate to the Group's results as follows:

	Group	
	2007 £m	2006 £m
Profit before taxation	**126.0**	246.7
UK corporation tax at 30%	**37.8**	74.0
Effects of		
- Expenses not deductible for taxation	**4.3**	3.6
- Lower rate on overseas earnings	**(7.2)**	(3.0)
- Change in rate effective 1 April 2008 on deferred tax items	**(0.7)**	-
- Adjustments in respect of previous years	**(1.4)**	(5.6)
Total taxation charge for the year	**32.8**	69.0
Effective tax rate (%)	**26.0**	28.0

Deferred tax appropriately reflects the change to the standard rate of UK corporation tax from 30% to 28% which will become effective on 1 April 2008.

7. Earnings per share

	Group	
	2007 pence	2006 pence
Basic	**14.9**	28.2
Diluted	**14.9**	28.1

Earnings per share is calculated using the following amounts of profit attributable to equity shareholders:

	Group	
	2007 £m	2006 £m
Profit for the financial year	**93.2**	177.7

Earnings per share is calculated using the number of ordinary shares as follows:

	Group	
	2007 Shares (m)	2006 Shares (m)
Weighted average number of ordinary shares in issue	**624.2**	630.2
Dilutive effect of ordinary shares issuable under Company share schemes	**0.8**	2.0
Diluted weighted average number of ordinary shares	**625.0**	632.2

The diluted weighted average number of ordinary shares is calculated by assuming that all shares which could be issued as a result of existing share options and other share-based payment arrangements are in fact issued. Issuance of these additional shares would have no material impact on the Group's earnings. Shares acquired by employee share trusts, which are deducted from retained earnings, have been excluded from the calculation of earnings per share as they are cancelled until such time as they vest unconditionally to the employee.

8. Dividends

Group and Company dividends recognised in the year were as follows:

	2007 Pence per share	2006 Pence per share	**2007 £m**	2006 £m
2005 final dividend	-	12.3	-	77.6
2006 interim dividend	-	6.6	-	41.6
2006 final dividend	**13.4**	-	**84.7**	-
2007 interim dividend	**6.7**	-	**41.8**	-
	20.1	18.9	**126.5**	119.2
Proposed final dividend (unaccrued)	**14.3**	13.4	**87.4**	84.6

On 12 February 2008, the Directors proposed that a dividend of 14.3 pence per share (2006: 13.4 pence) be paid on 2 May 2008 to shareholders, on the Register at the close of business on 25 March 2008, making a total proposed dividend for the year of 21.0 pence (2006: 20.0 pence). A resolution to approve the payment of this dividend will be put to the shareholders at the Company's Annual General Meeting to be held on 22 April 2008. In accordance with IAS 10 'Events after the Balance Sheet Date' this proposed dividend has not been accrued in the Balance Sheet as it was not a liability at the Balance Sheet date.

9. Loans and advances to banks

At 31 December	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Items in the course of collection from other banks	**82.9**	30.1	**79.1**	30.4
Amounts due from banks	**2,309.2**	3,271.3	**1,822.8**	2,383.1
Total	**2,392.1**	3,301.4	**1,901.9**	2,413.5

Notes to the Financial Statements

10. Loans and advances to customers

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Net of impairment (see note 11)				
- Advances secured on residential properties	**39,565.0**	33,431.1	**24,566.3**	19,505.4
- Other secured advances	**879.5**	2,700.6	**879.5**	2,741.4
- Amounts due from subsidiary undertakings	**-**	-	**25,989.6**	19,648.7
	40,444.5	36,131.7	**51,435.4**	41,895.5

Loans and advances to customers include advances secured on residential properties that are securitised amounting to £19,844.9m (2006: £12,599.3m) for Group and £19,488.5m (2006: £12,133.9m) for Company which have been sold to bankruptcy remote special purpose vehicles whereby some of the risks and rewards of the portfolio are retained by the Group/Company. Accordingly, all these loans and advances are retained on the Group's/Company's Balance Sheet. Further details are provided in note 12.

Loans and advances to customers comprise the following product types:

Group	Balances At 31 December 2007 £m	%	Balances At 31 December 2006 £m	%
Residential				
Originated				
- Buy-to-let	**20,960.8**	**67**	16,962.4	65
- Self-cert	**5,491.9**	**17**	4,635.6	18
- Standard and other specialist	**4,959.6**	**16**	4,622.1	17
Total	**31,412.3**	**100**	26,220.1	100
Acquired				
- Buy-to-let	**2,172.1**	**27**	1,225.9	25
- Self-cert	**3,048.2**	**38**	2,263.4	46
- Standard and other specialist	**2,789.7**	**35**	1,425.3	29
Total	**8,010.0**	**100**	4,914.6	100
- Buy-to-let	**23,132.9**	**59**	18,188.3	58
- Self-cert	**8,540.1**	**22**	6,899.0	22
- Standard and other specialist	**7,749.3**	**19**	6,047.4	20
Total residential	**39,422.3**	**100**	31,134.7	100
Residential	**39,422.3**	**97**	31,134.7	87
Commercial property	**879.5**	**3**	2,687.0	7
Housing associations	**142.7**	**-**	2,310.0	6
Total	**40,444.5**	**100**	36,131.7	100

Company	Balances At 31 December 2007 £m	%	Balances At 31 December 2006 £m	%
Residential				
Originated				
- Buy-to-let	**16,765.1**	**69**	11,401.0	66
- Self-cert	**4,185.3**	**17**	2,413.8	14
- Standard and other specialist	**3,473.2**	**14**	3,435.0	20
Total	**24,423.6**	**100**	17,249.8	100
- Residential	**24,423.6**	**47**	17,249.8	41
- Commercial property	**879.5**	**2**	2,687.0	6
- Housing associations	**142.7**	**-**	2,310.0	6
- Group undertakings	**25,989.6**	**51**	19,648.7	47
Total	**51,435.4**	**100**	41,895.5	100

11. Loan impairment

Group

	On residential mortgages £m	On commercial property and housing associations £m	Total £m
Allowances have been made for credit losses against loans and advances to customers as follows:			
At 1 January 2007	**47.8**	**1.6**	**49.4**
Write-offs	**(23.8)**	**-**	**(23.8)**
Impairment charge/(credit)	**30.4**	**(1.5)**	**28.9**
Discount unwind	**0.4**	**-**	**0.4**
	7.0	**(1.5)**	**5.5**
At 31 December 2007	**54.8**	**0.1**	**54.9**
The Income Statement charge/(credit) comprised			
- Impairment charge/(credit)	**30.4**	**(1.5)**	**28.9**
- Recoveries	**(6.8)**	**-**	**(6.8)**
- Discount unwind	**0.4**	**-**	**0.4**
Total Income Statement charge/(credit)	**24.0**	**(1.5)**	**22.5**
Allowances have been made for credit losses against loans and advances to customers as follows:			
At 1 January 2006	46.1	2.3	48.4
Write-offs	(13.9)	-	(13.9)
Impairment charge/(credit)	15.4	(0.7)	14.7
Discount unwind	0.2	-	0.2
	1.7	(0.7)	1.0
At 31 December 2006	47.8	1.6	49.4
The Income Statement charge/(credit) comprised			
- Impairment charge/(credit)	15.4	(0.7)	14.7
- Recoveries	(7.5)	-	(7.5)
- Discount unwind	0.2	-	0.2
Total Income Statement charge/(credit)	8.1	(0.7)	7.4

Company

	On residential mortgages £m	On commercial property and housing associations £m	Total £m
Allowances have been made for credit losses against loans and advances to customers as follows:			
At 1 January 2007	**11.4**	**1.6**	**13.0**
Write-offs	**(1.8)**	**-**	**(1.8)**
Impairment charge/(credit)	**6.0**	**(1.5)**	**4.5**
	4.2	**(1.5)**	**2.7**
At 31 December 2007	**15.6**	**0.1**	**15.7**
The Income Statement charge/(credit) comprised			
- Impairment charge/(credit)	**6.0**	**(1.5)**	**4.5**
- Recoveries	**(4.5)**	**-**	**(4.5)**
Total Income Statement charge/(credit)	**1.5**	**(1.5)**	**-**
Allowances have been made for credit losses against loans and advances to customers as follows:			
At 1 January 2006	12.3	2.3	14.6
Write-offs	(5.7)	-	(5.7)
Impairment charge/(credit)	4.8	(0.7)	4.1
	(0.9)	(0.7)	(1.6)
At 31 December 2006	11.4	1.6	13.0
The Income Statement charge/(credit) comprised			
- Impairment charge/(credit)	4.8	(0.7)	4.1
- Recoveries	(5.0)	-	(5.0)
Total Income Statement credit	(0.2)	(0.7)	(0.9)

In the Balance Sheet these impairment allowances are deducted from the carrying values of the impaired assets.

Notes to the Financial Statements

11. Loan impairment continued

Further information regarding the credit quality of loans and advances to customers:

Group	At 31 December 2007			At 31 December 2006		
	On residential mortgages £m	On commercial property and housing associations £m	Total £m	On residential mortgages £m	On commercial property and housing associations £m	Total £m
Neither past due nor impaired	**37,212.7**	**1,022.3**	**38,235.0**	29,642.7	4,998.6	34,641.3
Past due but not impaired						
- up to 3 months	**1,436.2**	**-**	**1,436.2**	988.2	-	988.2
- 3 to 6 months	**464.6**	**-**	**464.6**	372.8	-	372.8
- 6 to 12 months	**208.2**	**-**	**208.2**	98.3	-	98.3
Individually impaired	**155.4**	**-**	**155.4**	80.5	-	80.5
	39,477.1	**1,022.3**	**40,499.4**	31,182.5	4,998.6	36,181.1
Impairment allowances	**(54.8)**	**(0.1)**	**(54.9)**	(47.8)	(1.6)	(49.4)
Loans and advances to customers net of impairment allowances	**39,422.3**	**1,022.2**	**40,444.5**	31,134.7	4,997.0	36,131.7
Impairment allowances						
- individual	**20.0**	**-**	**20.0**	16.9	-	16.9
- collective	**34.8**	**0.1**	**34.9**	30.9	1.6	32.5
Total	**54.8**	**0.1**	**54.9**	47.8	1.6	49.4

Company	At 31 December 2007			At 31 December 2006		
	On residential mortgages £m	On commercial property and housing associations £m	Total £m	On residential mortgages £m	On commercial property and housing associations £m	Total £m
Neither past due nor impaired	**23,494.2**	**1,022.3**	**24,516.5**	16,745.5	4,998.6	21,744.1
Past due but not impaired						
- up to 3 months	**677.1**	**-**	**677.1**	348.0	-	348.0
- 3 to 6 months	**158.4**	**-**	**158.4**	116.6	-	116.6
- 6 to 12 months	**66.3**	**-**	**66.3**	30.2	-	30.2
Individually impaired	**43.2**	**-**	**43.2**	20.9	-	20.9
	24,439.2	**1,022.3**	**25,461.5**	17,261.2	4,998.6	22,259.8
Impairment allowances	**(15.6)**	**(0.1)**	**(15.7)**	(11.4)	(1.6)	(13.0)
Loans and advances to customers net of impairment allowances	**24,423.6**	**1,022.2**	**25,445.8**	17,249.8	4,997.0	22,246.8
Impairment allowances						
- individual	**5.0**	**-**	**5.0**	2.3	-	2.3
- collective	**10.6**	**0.1**	**10.7**	9.1	1.6	10.7
Total	**15.6**	**0.1**	**15.7**	11.4	1.6	13.0

No loans which would otherwise be presented as past due or impaired are excluded from those amounts presented above as a result of renegotiation.

In respect of loans and advances to customers, the Group and Company hold collateral in the form of mortgages over residential properties. The fair value of this collateral was as follows:

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Neither past due nor impaired	**70,423.3**	56,896.6	**48,940.8**	38,271.6
Past due but not impaired	**3,278.5**	2,396.9	**1,650.5**	1,069.1
Individually impaired	**195.1**	106.0	**60.3**	30.6
	73,896.9	59,399.5	**50,651.6**	39,371.3

11. Loan impairment continued

If the collateral amount on each individual loan were capped at the amount of the balance outstanding, and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Neither past due nor impaired	37,212.7	29,620.7	23,444.9	16,739.7
Past due but not impaired	2,107.8	1,456.7	901.5	494.7
Individually impaired	146.5	76.6	40.9	18.4
	39,467.0	31,154.0	24,387.3	17,252.8
The individually impaired balances above include the following carrying amount of assets in possession	88.1	49.0	21.5	12.9

The fair value of the collateral is estimated by taking the most recent valuation of the property and adjusting for house price inflation.

After a property has been taken into possession, the process for sale is designed to mitigate any loss or maximise any potential surplus for the borrower.

Typically the property is sold by private treaty, via a locally appointed agent, as quickly as possible and for the best price attainable, taking into consideration market, property and general economic conditions. If it becomes apparent that the property will not sell by private treaty, consideration is given to submitting the property to an auction, following an auction appraisal and a recommendation by the Company's appointed Asset Manager.

During 2007, arrears levels have increased as predicted following the effect of five 25bp base rate increases since August 2006 (base rates increased from 4.5% to 5.75% prior to the recent 25bp reduction on December 2007). The total number of cases three months or more in arrears and in possession has increased to 6,170 (2006: 4,337) amounting to 1.63% (2006: 1.30%) of the total book.

Indexed average loan to value (LTV)

	Group		Company	
	2007 %	2006 %	2007 %	2006 %
Neither past due nor impaired	**52.8**	52.1	**47.9**	43.8
Past due but not impaired	**64.3**	60.9	**54.6**	46.3
Individually impaired	**79.6**	75.9	**71.6**	68.3
Total book	**55.3**	53.4	**50.3**	47.0

12. Secured funding

Group At 31 December 2007	Date of transaction	Securitised assets £m	Secured funding £m
Securitisations			
Aire Valley Finance (No.2) plc	**October 2000**	**356.4**	**333.6**
Aire Valley Mortgages 2004-1 plc*	**October 2004**	**775.0**	**775.0**
Aire Valley Mortgages 2005-1 plc*	**April 2005**	**782.3**	**782.3**
Aire Valley Mortgages 2006-1 plc*	**August 2006**	**2,430.1**	**2,430.1**
Aire Valley Warehousing 3 Ltd*	**December 2006**	**1,000.0**	**1,000.0**
Aire Valley Mortgages 2007-1 plc*	**May 2007**	**2,495.1**	**2,495.1**
Aire Valley Mortgages 2007-2 plc*	**November 2007**	**1,156.3**	**1,156.3**
		8,995.2	**8,972.4**
Covered Bonds			
Bradford & Bingley Covered Bonds LLP*	**May 2004**	**2,129.2**	**1,342.0**
Bradford & Bingley Covered Bonds LLP*	**May 2006**	**3,303.5**	**2,082.1**
Bradford & Bingley Covered Bonds LLP*	**June 2006**	**374.5**	**236.0**
Bradford & Bingley Covered Bonds LLP*	**October 2006**	**621.6**	**391.8**
Bradford & Bingley Covered Bonds LLP*	**June 2007**	**2,676.5**	**1,686.9**
Bradford & Bingley Covered Bonds LLP*	**July 2007**	**285.1**	**179.7**
Bradford & Bingley Covered Bonds LLP*	**September 2007**	**793.4**	**500.0**
Bradford & Bingley Covered Bonds LLP*	**October 2007**	**665.9**	**419.7**
		10,849.7	**6,838.2**
Total		**19,844.9**	**15,810.6**

Notes to the Financial Statements

12. Secured funding continued

Group
At 31 December 2006

	Date of transaction	Securitised assets £m	Secured funding £m
Securitisations			
Aire Valley Finance (No.2) plc	October 2000	465.4	453.2
Aire Valley Mortgages 2004-1 plc*	October 2004	1,775.0	1,775.0
Aire Valley Mortgages 2005-1 plc*	April 2005	998.5	998.5
Aire Valley Mortgages 2006-1 plc*	August 2006	2,430.1	2,430.1
Aire Valley Warehousing 3 Ltd*	December 2006	1,000.0	1,000.0
		6,669.0	6,656.8
Covered Bonds			
Bradford & Bingley Covered Bonds LLP*	May 2004	1,945.7	1,342.0
Bradford & Bingley Covered Bonds LLP*	May 2006	3,018.7	2,082.1
Bradford & Bingley Covered Bonds LLP*	June 2006	351.9	242.7
Bradford & Bingley Covered Bonds LLP*	October 2006	614.0	423.5
		5,930.3	4,090.3
Total		12,599.3	10,747.1

*The Company held £19,488.5m of mortgage assets as at 31 December 2007 (2006: £12,133.9m) within loans and advances to customers to secure funding of £15,477.0m (2006: £10,293.9m). The secured funding amounts above are the principal amounts calculated using the exchange rates at the date of issue. The carrying amount of this secured funding, including the hedge adjustments for hedged risk, is included in debt securities in issue (see note 22).

A 'special purpose vehicle' ('SPV') is a structure comprising one or more legal entities, set up to act as a trust for debt investors, with the aim of obtaining financing. A Group company sells to another entity the right to receive the cash flows arising on certain loans. However, the mortgage originator receives substantially all of the post-tax profit of that entity, and hence retains substantially all of the risks and rewards of the securitised loans. Hence the securitised loans are retained on the mortgage originator's Balance Sheet. For the same reason all SPVs to which the Group has transferred rights to mortgages are consolidated into the Group Financial Statements.

(a) Aire Valley Finance (No.2) plc
This SPV issued £1,000.0m of loan notes in October 2000 to purchase a £1,000.0m interest in mortgages. A start-up loan of £22.9m in the form of subordinated debt was provided by Bradford & Bingley plc. Securitised assets at 31 December 2007 were £356.4m (2006: £465.4m), loan notes £333.6m (2006: £453.2m) and subordinated debt £22.9m (2006: £22.9m).

(b) Aire Valley Mortgages 2004-1 plc
This SPV issued £2,000.0m of loan notes denominated in US Dollars, Euros and Sterling in October 2004 to purchase a £2,000.0m share in the Master Trust. £225.0m of loan notes were redeemed in September 2005, £500.0m in June 2007 and £500.0m in December 2007. At 31 December 2007 the value of the share in the Master Trust was £775.0m (2006: £1,775.0m).

(c) Aire Valley Mortgages 2005-1 plc
This SPV issued £998.5m of loan notes denominated in US Dollars, Euros and Sterling in April 2005 to purchase a £998.5m share in the Master Trust. In December 2007 £216.2m of loan notes were redeemed. At 31 December 2007 the value of the share in the Master Trust was £782.3m (2006: £998.5m)

(d) Aire Valley Mortgages 2006-1 plc
This SPV issued £2,430.1m of loan notes denominated in US Dollars, Euros and Sterling in August 2006 to purchase a £2,340.1m share in the Master Trust. At 31 December 2007 the value of the share in the Master Trust was £2,430.1m (2006: £2,430.1m).

(e) Aire Valley Warehousing 3 Ltd
This is a warehouse deal issued in December 2006 for £1,000.0m to purchase a £1,000.0m share in the Master Trust, and expected to mature in 2008. At 31 December 2007 the value of the share in the Master Trust was £1,000.0m (2006: £1,000.0m).

(f) Aire Valley Mortgages 2007-1 plc
This SPV issued £2,495.1m of loans notes denominated in US Dollars, Euros and Sterling in May 2007 to purchase a £2,495.1m share in the Master Trust. At 31 December 2007 the value of the share in the Master Trust was £2,495.1m.

(g) Aire Valley Mortgages 2007-2 plc
The SPV issued £1,156.3m of loan notes denominated in Euros and Sterling in November 2007 to purchase a £1,156.3m share in the Master Trust. At 31 December 2007 the value of the share in the Master Trust was £1,156.3m.

12. Secured funding continued

(h) Bradford & Bingley Covered Bonds LLP

A Euro 10,000.0m covered bond programme was launched in May 2004 with the issue of a Euro 2,000.0m note, with bullet maturity in May 2009. A covered bond is a full recourse debt instrument secured against a pool of eligible mortgages. Bradford & Bingley Covered Bonds LLP, a limited liability partnership, was formed, and a trustee was appointed to ensure compliance with the covered bond rules. The pool of mortgages remains on the Balance Sheet of the mortgage issuer. This covered bond structure represents a revolving credit agreement, the value of qualifying mortgages cannot fall below the value of the loan notes, and qualifying loans are taken into the partnership to ensure this. During 2006 the following loan notes were issued: In May 2006: Euro 1,000.0m with bullet maturity in May 2011 and Euro 2,000.0m with bullet maturity in May 2016. In June 2006: CHF 300.0m with bullet maturity in June 2012 and CHF 250.0m with bullet maturity in June 2016. In October 2006: CHF 250.0m with bullet maturity in October 2010, CHF 300.0m with bullet maturity in October 2013, CHF 250.0m with bullet maturity in October 2018, and CHF 200.0m with bullet maturity in October 2031.

During 2007 the covered bond programme issued the following series of loan notes:
In June 2007: Euro 1,250.0m with bullet maturity in June 2010 and Euro 1,250.0m with bullet maturity in June 2017. In July 2007: CHF 200.0m with bullet maturity in July 2011, CHF 150.0m with bullet maturity in July 2027 and CHF 200.0m with bullet maturity in July 2015. In September 2007: £500.0m with bullet maturity in September 2009. In October 2007: Euro £500.0m with bullet maturity in October 2008 and Euro £100.0m with bullet maturity in October 2010. In October 2007: CHF 75.0m of the October 2006 issue and CHF 75.0m of the July 2007 issue were repurchased and cancelled. In December 2007: CHF 15.0m of the June 2006 issue and CHF 35.0m of the July 2007 issue were repurchased and cancelled.

As at December 2007 the funding of £6,838.2m (2006: £4,090.3m) was secured against £10,849.7m (2006: £5,930.3m) of mortgages.

13. Debt securities

At 31 December	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Investment securities issued by public bodies				
- Government securities	**1,518.8**	425.3	**1,518.8**	425.3
Investment securities issued by other issuers				
- Bank and building society certificates of deposit	**1,223.6**	1,092.9	**1,171.5**	861.5
- Other debt securities	**4,036.3**	3,781.7	**4,707.9**	3,554.1
	6,778.7	5,299.9	**7,398.2**	4,840.9
Analysis of debt securities by listing status				
- Listed	**6,145.2**	4,133.0	**6,092.0**	3,905.4
- Unlisted	**633.5**	1,166.9	**1,306.2**	935.5
	6,778.7	5,299.9	**7,398.2**	4,840.9

Debt securities are carried at fair value, which has been calculated through reference to market price. Where no reliable market price exists an assessment has been made as to the value of the debt security. This assessment was based on modelling the present value of future expected cash flows, using a discount curve adjusted for credit spread and liquidity, utilising information from a number of sources, including fund manager expectations and the performance of other similar securities. In the case of structured investment vehicles, fair value also takes into account any published restructuring proposals.

Debt securities are treated as 'available-for-sale' with changes in fair value recorded as a movement in reserves or, in the case of embedded derivatives attached to collateralised debt obligations, through the Income Statement. Where fair value estimates show significant reductions in market price or where other indicators of potential impairment have occurred (for example, ratings downgrades, significant or prolonged decline in market price, or a failure of the vehicle to meet contractual liquidity requirements) impairment is assessed. Any reduction that is considered to be permanent is then taken as a charge through the investment impairment line on the income statement. Throughout 2007 all collateralised debt obligations and structured investment vehicles were tested for evidence of impairment. As a result a charge has been made to the Income Statement of £94.4m for asset impairment and £49.7m for reduction in the fair value of embedded derivatives.

Notes to the Financial Statements

13. Debt securities continued

The risks in the Group's portfolio are managed on a Group basis. An analysis of the Group's and Company's liquidity and investment portfolio is provided below:

Group Wholesale assets At 31 December	2007 £m	Aaa %	Aa %	A %	Baa1 to B3 %	Caa1 and below %	2006 £m
Cash and balances at central banks	**209.2**	100	-	-	-	-	202.6
Treasury bills	**185.0**	100	-	-	-	-	-
Loans and advances to banks:							
- Reverse repos	**253.4**	100	-	-	-	-	0.5
- Certificates of deposit	**1,344.6**	15	82	3	-	-	2,043.6
- Cash and other collateral	**794.1**	24	76	-	-	-	1,257.3
	2,392.1	27	71	2	-	-	3,301.4
Debt securities:							
Liquidity portfolio:							
- UK Government securities	**1,518.8**	100	-	-	-	-	425.3
- Bank and supranational bonds	**1,398.8**	77	21	2	-	-	1,362.0
- Bank certificates of deposit	**1,223.6**	16	74	10	-	-	1,092.7
- UK and European Aaa mortgage backed securities	**1,204.3**	100	-	-	-	-	1,030.4
- Other asset backed securities	**257.4**	41	37	16	6	-	379.5
	5,602.9	73	23	4	-	-	4,289.9
Investment portfolio:							
- Principal protected notes	**582.0**	41	51	8	-	-	337.9
- Collateralised debt obligations	**218.4**	76	15	7	2	-	242.2
- Collateralised loan obligations	**238.2**	58	32	5	5	-	215.9
- Structured investment vehicles	**63.5**	-	-	-	-	100	135.7
- Credit funds	**73.7**	-	8	60	32	-	78.3
	1,175.8	46	35	10	4	5	1,010.0
	6,778.7	69	25	4	1	1	5,299.9
Total	**9,565.0**	**59**	**36**	**3**	**1**	**1**	**8,803.9**

Additional analysis of the underlying collateral within the investment portfolio by geographic region and by type of exposure is provided in the table below:

Group		Analysis of investment by geographic region					Analysis of investment by type of asset				
Investment portfolio At 31 December	2007 £m	UK %	Europe %	US %	Other %	Total %	Mortgage backed securities %	Asset backed securities %	Corporate loans %	Other %	Total %
Principal protected notes	**582.0**	48	48	3	1	100	-	3	62	35	100
Collateralised debt obligations	**218.4**	-	28	71	1	100	49	-	51	-	100
Collateralised loan obligations	**238.2**	-	57	43	-	100	-	-	100	-	100
Structured investment vehicles	**63.5**	21	19	52	8	100	-	100	-	-	100
Credit funds	**73.7**	9	91	-	-	100	-	-	74	26	100
	1,175.8					100					100

13. Debt securities continued

Company Wholesale assets At 31 December	2007 £m	Aaa %	Aa %	A %	Baa1 to B3 %	Caa1 and below %	2006 £m
Cash and balances at central banks	**209.2**	100	-	-	-	-	202.6
Treasury bills	**185.0**	100	-	-	-	-	-
Loans and advances to banks:							
- Reverse repos	**253.4**	100	-	-	-	-	0.5
- CDs	**1,344.6**	15	82	3	-	-	2,043.6
- Cash and other collateral	**303.9**	35	65	-	-	-	369.4
	1,901.9	30	68	2	-	-	2,413.5
Debt securities:							
Liquidity portfolio:							
- UK Government securities	**1,518.8**	100	-	-	-	-	425.3
- Bank and supranational bonds	**1,101.7**	95	3	2	-	-	1,060.3
- Bank CDs	**1,171.5**	17	72	11	-	-	914.5
- UK and European Aaa MBS	**1,660.0**	100	-	-	-	-	1,030.4
- Other asset backed securities	**555.2**	20	43	7	30	-	379.5
- Other	**215.2**	-	-	100	-	-	20.9
	6,222.4	73	17	7	3	-	3,830.9
Investment portfolio:							
- Principal protected notes	**582.0**	41	51	8	-	-	337.9
- CDOs	**218.4**	76	15	7	2	-	242.2
- CLOs	**238.2**	58	32	5	5	-	215.9
- SIVs	**63.5**	-	-	-	-	100	135.7
- Credit funds	**73.7**	-	8	60	32	-	78.3
	1,175.8	46	35	10	4	5	1,010.0
	7,398.2	68	21	7	3	1	4,840.9
Total	**9,694.3**	**62**	**29**	**4**	**2**	**3**	**7,457.0**

At 31 December 2007 the Company's debt securities included £753.5m (2006: £nil) of loan notes issued by the Company's securitisation vehicles. Further information regarding the securitisation is provided in note 12.

14. Prepayments and accrued income

At 31 December	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Commission receivable	**7.3**	12.9	**7.3**	12.9
Other	**21.2**	12.1	**14.8**	7.5
	28.5	25.0	**22.1**	20.4

15. Shares in Group undertakings

Company	2007 £m	2006 £m
At 1 January	**543.7**	557.6
Disposals	**-**	(13.9)
At 31 December	**543.7**	543.7

During 2006 the Company disposed of its holdings in the following entities:
Bradford & Bingley Investments (Isle of Man) Ltd
Bradford & Bingley (Douglas) Ltd
Bradford & Bingley (PEPS) Ltd
Bradford & Bingley Properties Ltd
The disposal of these entities had no significant impact on the results of the Group or the Company.

Notes to the Financial Statements

15. Shares in Group undertakings continued

The principal trading subsidiary undertakings of Bradford & Bingley plc at 31 December 2007 held directly or indirectly, all of which are fully consolidated into the Group Financial Statements, are listed below:

	Country of incorporation	Major activity	Class of shares held	Interest
Direct				
Bradford & Bingley International Ltd	Isle of Man	Offshore deposit-taking	Ordinary	100%
Bradford & Bingley Investments	England	Holding company	Ordinary	100%
Bradford & Bingley Treasury Services (Ireland)	England	Treasury activities	Ordinary	100%
Indirect				
Mortgage Express	England	Residential mortgage lending	Ordinary	100%

The following companies are SPVs established in connection with the Group's securitisation and covered bond programmes (see note 12). The Company has no ownership interest in these entities but they are regarded as subsidiaries as they are, in substance, controlled by the Company.

	Country of incorporation	Major activity
SPVs		
Aire Valley Finance (No.2) plc	England	Debt issuance
Aire Valley Mortgages 2004-1 plc	England	Debt issuance
Aire Valley Mortgages 2005-1 plc	England	Debt issuance
Aire Valley Mortgages 2006-1 plc	England	Debt issuance
Aire Valley Warehousing 3 Ltd	England	Debt issuance
Aire Valley Mortgages 2007-1 plc	England	Debt issuance
Aire Valley Mortgages 2007-2 plc	England	Debt issuance
Bradford & Bingley Covered Bonds LLP	England	Mortgage funding

Bradford & Bingley Investments, Bradford & Bingley Treasury Services (Ireland) and Mortgage Express are all unlimited companies.
No fair value is provided in respect of shares in Group undertakings as these shares do not have a quoted market price.

16. Other assets

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Consideration due in respect of sale of assets	**645.9**	-	**645.9**	-
Deposits by banks awaiting settlement	**-**	16.8	**-**	16.8
Other	**5.7**	4.5	**4.3**	3.1
Available-for-sale equity investments	**2.1**	-	**2.1**	-
	653.7	21.3	**652.3**	19.9

17. Deferred taxation

The net deferred taxation asset is attributable to the following:

Group	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Change in accounting basis on adoption of IFRS	**14.1**	17.0	**(19.2)**	(23.1)	**(5.1)**	(6.1)
Cash flow hedge	**23.4**	-	**-**	(8.9)	**23.4**	(8.9)
Accelerated tax depreciation	**3.7**	4.6	**-**	(3.6)	**3.7**	1.0
Other	**1.2**	7.0	**(2.5)**	(1.8)	**(1.3)**	5.2
Employee benefits	**27.6**	24.8	**(24.5)**	(7.4)	**3.1**	17.4
Taxation value of losses carried forward	**-**	-	**-**	(2.9)	**-**	(2.9)
	70.0	53.4	**(46.2)**	(47.7)	**23.8**	5.7
Offset	**(46.2)**	(47.7)	**46.2**	47.7	**-**	-
	23.8	5.7	**-**	-	**23.8**	5.7

17. Deferred taxation continued

Company	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Change in accounting basis on adoption of IFRS	**8.5**	10.2	**(14.7)**	(17.7)	**(6.2)**	(7.5)
Cash flow hedge	**23.4**	-	**-**	(8.9)	**23.4**	(8.9)
Accelerated tax depreciation	**1.5**	3.4	**-**	-	**1.5**	3.4
Other	**-**	3.5	**-**	0.1	**-**	3.6
Employee benefits	**27.6**	24.8	**(24.5)**	(7.4)	**3.1**	17.4
Taxation value of losses carried forward	**-**		**-**	-	**-**	-
	61.0	41.9	**(39.2)**	(33.9)	**21.8**	8.0
Offset	**(39.2)**	(33.9)	**39.2**	33.9	**-**	-
	21.8	8.0	**-**	-	**21.8**	8.0

The movements in the Group's temporary differences during the year and previous year were as follows:

	At 1 January 2007 £m	**Recognised in income £m**	**Recognised in equity £m**	**At 31 December 2007 £m**
Change in accounting basis on adoption of IFRS	**(6.1)**	**1.0**	**-**	**(5.1)**
Cash flow hedge	**(8.9)**	**-**	**32.3**	**23.4**
Accelerated tax depreciation	**1.0**	**2.7**	**-**	**3.7**
Other	**5.2**	**(6.5)**	**-**	**(1.3)**
Employee benefits	**17.4**	**2.6**	**(16.9)**	**3.1**
Taxation value of losses carried forward	**(2.9)**	**2.9**	**-**	**-**
	5.7	**2.7**	**15.4**	**23.8**

	At 1 January 2006 £m	Recognised in income £m	Recognised in equity £m	At 31 December 2006 £m
Change in accounting basis on adoption of IFRS	(6.8)	0.7	-	(6.1)
Cash flow hedge	-	-	(8.9)	(8.9)
Accelerated tax depreciation	1.5	(0.5)	-	1.0
Other	(2.2)	0.8	6.6	5.2
Employee benefits	38.1	(15.2)	(5.5)	17.4
Taxation value of losses carried forward	(2.9)	-	-	(2.9)
	27.7	(14.2)	(7.8)	5.7

The movements in the Company's temporary differences during the year and previous year were as follows:

	At 1 January 2007 £m	**Recognised in income £m**	**Recognised in equity £m**	**At 31 December 2007 £m**
Change in accounting basis on adoption of IFRS	**(7.5)**	**1.3**	**-**	**(6.2)**
Cash flow hedge	**(8.9)**	**-**	**32.3**	**23.4**
Accelerated tax depreciation	**3.4**	**(1.9)**	**-**	**1.5**
Other	**3.6**	**(3.6)**	**-**	**-**
Employee benefits	**17.4**	**2.6**	**(16.9)**	**3.1**
	8.0	**(1.6)**	**15.4**	**21.8**

	At 1 January 2006 £m	Recognised in income £m	Recognised in equity £m	At 31 December 2006 £m
Change in accounting basis on adoption of IFRS	(8.3)	0.8	-	(7.5)
Cash flow hedge	-	-	(8.9)	(8.9)
Accelerated tax depreciation	3.4	-	-	3.4
Other	(9.0)	6.0	6.6	3.6
Employee benefits	38.1	(15.2)	(5.5)	17.4
	24.2	(8.4)	(7.8)	8.0

Deferred taxation appropriately reflects the change to the standard rate of UK corporation tax from 30% to 28% which will become effective on 1 April 2008.

Notes to the Financial Statements

18. Property, plant and equipment

Group	Land and buildings £m	Equipment, fixtures and vehicles £m	Total £m
Cost			
At 1 January 2007	**99.8**	**94.6**	**194.4**
Additions	**1.1**	**28.2**	**29.3**
Disposals	**(6.3)**	**(15.1)**	**(21.4)**
At 31 December 2007	**94.6**	**107.7**	**202.3**
Depreciation			
At 1 January 2007	**30.1**	**73.5**	**103.6**
Depreciation charge for the year	**1.1**	**6.6**	**7.7**
Disposals	**(3.1)**	**(12.4)**	**(15.5)**
At 31 December 2007	**28.1**	**67.7**	**95.8**
Net book value			
At 1 January 2007	**69.7**	**21.1**	**90.8**
At 31 December 2007	**66.5**	**40.0**	**106.5**

Group	Land and buildings £m	Equipment, fixtures and vehicles £m	Total £m
Cost			
At 1 January 2006	103.3	105.5	208.8
Additions	0.2	7.7	7.9
Disposals	(3.7)	(18.6)	(22.3)
At 31 December 2006	99.8	94.6	194.4
Depreciation			
At 1 January 2006	31.2	84.7	115.9
Depreciation charge for the year	1.3	5.7	7.0
Disposals	(2.4)	(16.9)	(19.3)
At 31 December 2006	30.1	73.5	103.6
Net book value			
At 1 January 2006	72.1	20.8	92.9
At 31 December 2006	69.7	21.1	90.8

Sale proceeds from asset disposals were £4.4m (2006: £1.9m) resulting in a loss on sale of £0.2m (2006: £0.2m). In addition, sale proceeds from the sale and leaseback of land and buildings were £10.1m (2006: £6.6m) resulting in a profit of £8.8m (2006: £5.7m) which has been included in the Income Statement in non-operating income.

There are no restrictions on the Group's title to any of its property, plant and equipment, and none of the Group's property, plant and equipment has been pledged as security.

18. Property, plant and equipment continued

Company

	Land and buildings £m	Equipment, fixtures and vehicles £m	Total £m
Cost			
At 1 January 2007	**93.1**	**82.7**	**175.8**
Additions	**1.1**	**25.7**	**26.8**
Disposals	**(6.2)**	**(8.9)**	**(15.1)**
At 31 December 2007	**88.0**	**99.5**	**187.5**
Depreciation			
At 1 January 2007	**29.0**	**67.3**	**96.3**
Depreciation charge for the year	**1.0**	**6.1**	**7.1**
Disposals	**(3.0)**	**(8.7)**	**(11.7)**
At 31 December 2007	**27.0**	**64.7**	**91.7**
Net book value			
At 1 January 2007	**64.1**	**15.4**	**79.5**
At 31 December 2007	**61.0**	**34.8**	**95.8**
Cost			
At 1 January 2006	96.6	92.7	189.3
Additions	0.2	5.7	5.9
Disposals	(3.7)	(15.7)	(19.4)
At 31 December 2006	93.1	82.7	175.8
Depreciation			
At 1 January 2006	30.3	77.7	108.0
Depreciation charge for the year	1.1	5.2	6.3
Disposals	(2.4)	(15.6)	(18.0)
At 31 December 2006	29.0	67.3	96.3
Net book value			
At 1 January 2006	66.3	15.0	81.3
At 31 December 2006	64.1	15.4	79.5

Sale proceeds from asset disposals were £2.1m (2006: £0.5m) resulting in a loss on sale of £nil (2006: £nil). In addition, sale proceeds from the sale and leaseback of land and buildings were £10.1m (2006: £6.6m) resulting in a profit of £8.8m (2006: £5.7m) which has been included in the Income Statement in non-operating income.

Notes to the Financial Statements

19. Intangible assets

	Group £m	Company £m
Cost		
At 1 January 2007	**114.3**	**66.9**
Additions	**5.0**	**0.1**
Disposals	**(9.3)**	**(9.3)**
At 31 December 2007	**110.0**	**57.7**
Amortisation		
At 1 January 2007	**59.1**	**45.0**
Amortisation charge for the year	**14.9**	**5.1**
Disposals	**(5.0)**	**(5.0)**
At 31 December 2007	**69.0**	**45.1**
Net book value		
At 1 January 2007	**55.2**	**21.9**
At 31 December 2007	**41.0**	**12.6**
Cost		
At 1 January 2006	102.8	62.6
Additions	18.7	11.5
Disposals	(7.2)	(7.2)
At 31 December 2006	114.3	66.9
Amortisation		
At 1 January 2006	55.3	48.9
Amortisation charge for the year	11.0	3.3
Disposals	(7.2)	(7.2)
At 31 December 2006	59.1	45.0
Net book value		
At 1 January 2006	47.5	13.7
At 31 December 2006	55.2	21.9

Intangible software with a book value of £4.3m (2006: £nil) has been written off by the Group and Company during the year due to the software being of no continuing use to the business.

20. Deposits by banks

At 31 December	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Items in the course of transmission	**30.5**	106.7	**29.1**	105.0
Other amounts due to banks	**2,043.9**	1,405.7	**1,629.4**	780.8
	2,074.4	1,512.4	**1,658.5**	885.8

21. Customer Accounts

At 31 December	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Amounts due to subsidiary undertakings	**-**	-	**22,420.9**	15,334.9
Amounts due to customers	**24,152.6**	22,201.0	**21,180.9**	19,207.9
	24,152.6	22,201.0	**43,601.8**	34,542.8

22. Debt securities in issue

At 31 December	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Bonds and medium term notes	**12,668.8**	10,296.0	**13,175.3**	10,296.0
Other debt securities in issue	**9,639.3**	7,545.3	**1,233.8**	950.5
	22,308.1	17,841.3	**14,409.1**	11,246.5

The Group and Company issue debt securities to securitise loans and advances to customers through special purpose vehicles as described in note 12. These debt securities are included in the amounts above. Certain debt securities in issue, including those issued through SPVs, are subject to fair value hedge designation and are adjusted to reflect the fair value of the risk being hedged.

23. Other liabilities

At 31 December	Group		Company	
	2007 **£m**	2006 £m	**2007** **£m**	2006 £m
Income tax	**56.0**	42.5	**54.6**	41.3
Surplus conversion shares	**25.7**	26.2	**25.7**	26.2
Other creditors	**59.5**	46.9	**47.8**	40.4
	141.2	115.6	**128.1**	107.9

The income tax liability comprises taxes deducted at source from interest paid to investors and from remuneration of employees and Directors.

24. Accruals and deferred income

At 31 December	Group		Company	
	2007 **£m**	2006 £m	**2007** **£m**	2006 £m
Accrued interest on subordinated liabilities	**32.1**	19.6	**37.7**	25.8
Accrued interest on other capital instruments	**5.6**	6.1	**-**	-
Deferred income	**2.1**	2.8	**2.1**	2.8
Other	**44.3**	55.9	**45.6**	55.5
	84.1	84.4	**85.4**	84.1

25. Post-retirement benefit obligations

(a) Pension schemes

The Group operates a closed defined benefit staff pension scheme, the Bradford & Bingley Staff Pension Scheme ('the principal scheme'), which is administered by trustees. The funds are independent from those of the Group. The normal pension age of employees in the scheme is 65.

The Group also operates a defined contribution scheme, the Bradford & Bingley Group Pension Plan. The funds of this scheme are independent from those of the Group. The Group and Company had no liabilities or prepayments associated with the defined contribution scheme at 31 December 2007 (2006: £nil). The cost in the year to the Group of the defined contribution scheme was £1.4m (2006: £1.2m) and the cost to the Company was £1.0m (2006: £0.9m).

(b) Other post-retirement benefits

The Group provides healthcare benefits to some of its pensioners. The healthcare benefits are provided through a post-retirement medical scheme into which the Company contributes 100% towards the cost of providing medical expense benefits for members who retired before 1 January 1996 and 50% for members who retired after this date. The total number of members of the scheme as at 31 December 2007 was 515 (2006: 557). Private medical costs are assessed in accordance with the advice of a qualified actuary.

(c) Accounting treatment

The Group accounts for post-retirement benefit costs in accordance with IAS 19. The full net actuarial deficit is carried on the Group and Company Balance Sheets, and actuarial gains and losses are taken to Group and Company retained earnings rather than being charged or credited in the Income Statement. The actuarial gain recognised in the Group and Company retained earnings during the year was £53.3m (2006: £20.1m).

More than one employing Group entity contributes to the post-retirement benefit schemes. As there is no contractual agreement or stated policy for charging the net defined benefit cost to individual Group entities the net defined benefit cost is recognised in the Financial Statements of the Company (being the sponsoring entity) while other individual Group entities, in their individual Financial Statements, recognise a cost equal to their contributions payable for the period.

(d) Employee benefit obligations

The amounts carried in the Group and Company Balance Sheets are as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	
	2007 **£m**	2006 £m	**2007** **£m**	2006 £m	**2007** **£m**	2006 £m
Present value of funded obligations	**586.8**	621.9	**11.0**	10.6	**597.8**	632.5
Fair value of plan assets	**(575.8)**	(549.3)	**-**	-	**(575.8)**	(549.3)
Net liability	**11.0**	72.6	**11.0**	10.6	**22.0**	83.2
Amounts carried in the Balance Sheet:						
- Liabilities	**11.0**	72.6	**11.0**	10.6	**22.0**	83.2

Notes to the Financial Statements

25. Post-retirement benefit obligations continued

(d) Employee benefit obligations continued

The amounts recognised in the Group Income Statement are as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Current service cost	**7.5**	7.5	**0.1**	0.1	**7.6**	7.6
Interest on plan obligations	**29.9**	28.3	**0.5**	0.4	**30.4**	28.7
Expected return on plan assets	**(34.4)**	(29.1)	**-**	-	**(34.4)**	(29.1)
	3.0	6.7	**0.6**	0.5	**3.6**	7.2
Actual return on plan assets	**27.5**	45.7	**-**	-	**27.5**	45.7

All amounts above have also been recognised in the Company Income Statement with the exception of £1.4m (2006: £1.7m) of the current service cost which has been recognised within other Group companies.

Changes in the present value of the defined benefit obligations were as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Opening defined benefit obligations	**621.9**	604.2	**10.6**	8.7	**632.5**	612.9
Current service cost	**7.5**	7.5	**0.1**	0.1	**7.6**	7.6
Contributions by employees	**0.9**	0.9	**-**	-	**0.9**	0.9
Interest on plan obligations	**29.9**	28.3	**0.5**	0.4	**30.4**	28.7
Actuarial (gain)/loss	**(60.4)**	(5.3)	**0.2**	1.8	**(60.2)**	(3.5)
Benefits paid	**(13.0)**	(13.7)	**(0.4)**	(0.4)	**(13.4)**	(14.1)
Closing defined benefit obligations	**586.8**	621.9	**11.0**	10.6	**597.8**	632.5

Changes in the fair value of plan assets were as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Opening fair value of plan assets	**549.3**	500.7	**-**	-	**549.3**	500.7
Expected return on plan assets	**34.4**	29.1	**-**	-	**34.4**	29.1
Contributions by employing entities	**11.0**	14.9	**0.4**	0.4	**11.4**	15.3
Contributions by employees	**0.9**	0.9	**-**	-	**0.9**	0.9
Actuarial (loss)/gain	**(6.9)**	16.6	**-**	-	**(6.9)**	16.6
Benefits paid	**(12.9)**	(12.9)	**(0.4)**	(0.4)	**(13.3)**	(13.3)
Closing fair value of plan assets	**575.8**	549.3	**-**	-	**575.8**	549.3

The Group expects to contribute £10.1m to its defined benefit pension plans in 2008.

The major categories of plan assets as a percentage of total plan assets at 31 December as follows:

	2007	2006
Equities	**44%**	47%
Property	**15%**	15%
Bonds	**27%**	7%
Gilts	**6%**	26%
Cash and other	**8%**	5%
	100%	100%

25. Post-retirement benefit obligations continued

(d) Employee benefit obligations continued

The principal actuarial assumptions (expressed as weighted averages) were as follows:

	2007	2006
To determine benefit obligations		
Discount rate at 31 December	**5.8%**	5.1%
Future pension increases	**3.4%**	3.1%
Rate of salary increase	**5.4%**	5.1%
To determine the net pension cost		
Expected return on plan assets	**6.3%**	5.8%
Discount rate	**5.1%**	4.7%
Rate of salary increase	**5.1%**	4.8%
For post-retirement medical plan		
Discount rate	**5.8%**	5.1%
Inflation	**3.4%**	3.1%
Medical cost trend for 2007	**6.5%**	7.3%
Medical cost trend falling linearly for 2008-2009	**6.5% to 5.5%**	7.3% to 4.5%
Medical cost trend falling linearly for 2010-2011	**5.5%**	5.9% to 4.5%
Medical cost trend from 2012	**5.5%**	4.5%

In determining the expected long-term return on plan assets the Company considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

The principal assumption made on life expectancy for active and retired members was to use PA92 (YOB) base rated up by 2 years. As an illustration of the mortality rates used, the future life expectancies from age 60 are shown below:

	Males	Females
Non-retired members' life expectancy*	25.9	28.7
Retired members' life expectancy**	23.8	26.8

* based on 1965 year of birth
** based on 1935 year of birth

Sensitivity

The following table illustrates the sensitivity of the pension scheme defined benefit obligation to four key assumptions: the discount rate, the rate of inflation, the rate of salary growth and the mortality assumption.

Assumption	Change in assumption	Impact on benefit obligation
Discount rate	Decrease by 0.5%	Increase by 11.9%
Inflation	Increase by 0.5%	Increase by 10.4%
Salary growth above inflation	Increase by 0.5%	Increase by 1.8%
Mortality	Decrease by 1 year	Increase by 2.3%

If the assumptions were to change by the same amount in the opposite direction to those illustrated, the benefit obligation would decrease or increase by a similar percentage to those shown in the table in each case.

Assumed healthcare cost trend rates have an effect on the amounts recognised in staff costs. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	2007 £m	2006 £m
Effect on the aggregate of service cost and interest cost	**0.1**	0.1
Effect on defined benefit obligations	**1.9**	1.9

	2007 £m	2006 £m
Experience adjustments on post-retirement medical plan liabilities: reduction in liability of	**0.1**	0.1

26. Provisions

Group and Company	Empty leasehold premises £m	Compensation claims £m	Restructuring costs £m	Pension review £m	Total £m
At 1 January 2007	**2.7**	**84.9**	**7.1**	**0.1**	**94.8**
Charged in the year	**0.3**	**-**	**5.7**	**-**	**6.0**
Utilised in the year	**(2.1)**	**(34.2)**	**(4.7)**	**(0.1)**	**(41.1)**
At 31 December 2007	**0.9**	**50.7**	**8.1**	**-**	**59.7**

Notes to the Financial Statements

26. Provisions continued

Empty leasehold premises
The empty leasehold premises provision relates to properties which, as at the Balance Sheet date, were no longer used for trading but were subject to a lease agreement. The provision is based on either known or forecast future rental expenditure; the rental payments are due to be made during the period 2008 to 2017.

Compensation claims
Compensation claims relate to potential payments to customers for business written in the past by the Group's independent advisory business. The provision is calculated on the basis of a reasonable estimate of the size and expected timing of claims. External factors such as the performance of the stock market and market agitation could influence both the size and timing of payments.

Restructuring costs
Other restructuring costs relate to redundancies and contract terminations which had occurred by the Balance Sheet date. The provision represents amounts expected to be paid in 2008. It also includes a provision for an insurance premium to cover the professional indemnity liability associated with businesses disposed of during 2004; the liability will run off over the next three years.

Pension review
The pension review provision was established to cover compensation payable in connection with phases one and two of the pension review and also a review of free-standing additional voluntary contributions. The provision was fully expensed during the year.

27. Subordinated liabilities

At 31 December	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Dated				
- Sterling subordinated notes due 2010	**128.1**	128.5	**128.1**	128.5
- Sterling perpetual subordinated notes due 2013	**243.6**	240.0	**243.6**	240.0
- Sterling fixed rate step-up subordinated notes due 2018	**249.2**	246.2	**249.2**	246.2
- Sterling perpetual subordinated notes due 2019	**202.4**	202.4	**202.4**	202.4
- Sterling fixed rate step-up subordinated notes due 2022	**198.9**	198.2	**198.9**	198.2
- Sterling subordinated notes due 2023	**126.5**	126.7	**126.5**	126.7
- Sterling perpetual subordinated notes due 2032	**-**	-	**161.6**	165.2
- Sterling subordinated notes due 2054	**-**	-	**150.0**	149.6
	1,148.7	1,142.0	**1,460.3**	1,456.8
Undated				
- 13% sterling perpetual subordinated bonds	**55.0**	55.0	**55.0**	55.0
- 11.625% sterling perpetual subordinated bonds	**50.0**	50.0	**50.0**	50.0
	1,253.7	1,247.0	**1,565.3**	1,561.8

The carrying values of the liabilities are on an EIR basis which takes into account issue costs. The carrying value of individually hedged items also includes hedge accounting adjustments to reflect changes in fair value of hedged risks.

The sterling subordinated notes due 2010 pay interest at a rate of 7.625% per annum until their maturity. The sterling perpetual subordinated notes due 2013 pay interest at a rate of 5.625% per annum until their maturity and are redeemable by the issuer at its option on 20 December 2013 and on each fifth anniversary thereafter. The sterling fixed rate step-up subordinated notes due 2018 pay interest at a rate of 5.5% per annum until 15 January 2013 when the Company may either redeem them or pay interest at a rate of 0.83% above the three month GBP LIBOR. The sterling perpetual subordinated notes due 2019 pay interest at a rate of 6% per annum until their maturity and are redeemable by the issuer at its option on 10 December 2019 and on each fifth anniversary thereafter. The sterling fixed rate step-up subordinated notes due 2022 pay interest at a rate of 5.75% per annum until 12 December 2017 when the Company may either redeem them, or pay a rate of interest 2% above the relevant five year gilt. The sterling subordinated notes due 2023 pay interest at a rate of 6.625% until their maturity. The sterling perpetual subordinated notes due 2032 pay interest at a rate of 6.462% until 2 June 2032 when the Company may either redeem them, or pay interest at a rate 2.3% above the relevant five year gilt. The sterling subordinated notes due 2054 pay interest quarterly at a rate of 1.3% above the three month GBP LIBOR, and can be redeemed at the option of the Company on the March 2015 interest payment date or any subsequent interest payment date. The interest on both issues of perpetual subordinated bonds, which have no maturity date, is payable half-yearly in arrears. Interest incurred by the Group in 2007 with respect to subordinated liabilities was £82.0m (2006: £79.9m) and by the Company was £91.7m (2006: £98.6m).

None of the subordinated liabilities can be repaid at the borrower's option, except as stated above. The rights of repayment of the holders of subordinated debt, including perpetual subordinated bonds, are subordinated to the claims of all depositors and creditors as regards the principal and interest thereon.

28. Other capital instruments

At 31 December	Group	
	2007 £m	2006 £m
Perpetual preferred securities	**161.6**	165.2
	161.6	165.2

The carrying values of these liabilities are on an EIR basis which takes into account issue costs. The carrying value of individually hedged items also includes hedge accounting adjustments to reflect changes in the fair value of hedged risks.

On 29 May 2002, £150.0m (£148.5m net of expenses) of 6.462% guaranteed, non-voting, non-cumulative, perpetual preferred securities, Series A, were issued through Bradford & Bingley Capital Funding L.P., a Jersey based Limited Partnership. These securities are not subject to any mandatory redemption provisions and qualify as tier 1 regulatory capital; they are redeemable by the issuer at its option on 2 June 2032 and on each fifth anniversary thereafter. They have a fixed coupon and, if not redeemed in 2032, the coupon will be reset at a rate equal to the sum of the relevant five year benchmark gilt rate plus a margin of 2.3% per annum. The Group is not obliged to, and will not, make any payments to the holders of the preferred securities other than those to which the holders of these securities are entitled under the terms of the preferred securities. Interest incurred in 2007 in respect of these securities was £9.7m (2006: £9.7m).

29. Share capital

Group and Company ordinary shares of 25p each:

	2007	2006	2007	2006
	Number of shares (m)		£m	£m
Ordinary shares authorised as at 1 January and 31 December	**882.0**	882.0	**220.5**	220.5
Ordinary shares issued and fully paid as at 1 January	**634.4**	634.4	**158.6**	158.6
Ordinary shares repurchased and cancelled during the year	**(16.7)**	-	**(4.2)**	-
Ordinary shares issued and fully paid as at 31 December	**617.7**	634.4	**154.4**	158.6

The issued share capital has reduced as a result of a share buy back programme approved by the shareholders at the Annual General Meeting in 2007. During 2007 16,750,000 shares were purchased for cancellation at a cost of £58.6m including commissions and Stamp Duty.

At 31 December 2007 the closing market price of Bradford & Bingley plc shares was 268.00p (2006: 470.25p).

As at 31 December 2007 6,630,132 of the Company's shares (2006: 3,547,889) were held by trusts for the purpose of satisfying the obligations of incentive plans; further details of these incentive plans are given below. The cost to the Group of these shares is accounted for as a deduction from retained earnings of £23.9m (2006: £10.4m). The Company has one class of shares: ordinary shares of 25p each, ranking equally in respect of rights attaching to voting, dividends and in the event of a winding-up.

Bradford & Bingley Employees' Share Trust

On 3 October 2000 the Company established an offshore employee share trust, the Bradford & Bingley Employees' Share Trust, for the purpose of receiving monies and acquiring shares to be used in conjunction with any employee share schemes established by the Company. At 31 December 2007 the trustee of this trust, Halifax EES Trustees International Limited, held 6,630,132 (2006: 3,320,380) shares to satisfy share awards and options which have been made or are to be made in accordance with the rules of the employee share schemes established by the Company.
The trust has waived in full its rights to receive dividends on the shares held except in respect of the Executive Incentive Plan where dividends are received in full by the trust and distributed to the underlying beneficial holders of the shares. This trust currently holds shares relating to the Executive Share Option Scheme, the Sharesave Scheme, the Employees' Restricted Share Bonus Plan and the Executive Incentive Plan which are detailed in note 31. During the year the Company provided £18.7m (2006: £nil) in funds to purchase 4,500,000 (2006: nil) shares.

Executive Share Option Scheme

Grants of approved and unapproved share options were made under the rules of the Bradford & Bingley 2000 Share Option Scheme as detailed in note 31. The shares are exercisable subject to the achievement of a performance target linked to an increase in the Company's earnings per share. The options over shares are exercisable over the period of three to ten years after the date of the grant. At the year end there were options outstanding over 635,620 shares (2006: 772,222).

Sharesave Scheme

The Company operates the Bradford & Bingley 2000 Sharesave Scheme, an Inland Revenue approved all-employee Save As You Earn share option scheme. Grants of share options under this scheme were made as detailed in note 31. The option prices represent a 20% discount to the market price on the date of the grant. There were 1,431 three year and 492 five year savings contracts in place at the end of 2007 represented by a total of 2,010,331 shares under option (2006: 2,355,725). A further invitation to participate in the scheme will be issued in February 2008.

On 8 December 2000 the Bradford & Bingley Qualifying Employee Share Ownership Trust was established to acquire shares for employees, including Directors, to satisfy options exercised under the Sharesave Scheme. Once the total shares held by the trust had been used the trust was terminated and at 31 December 2007 the trust held no shares (2006: 227,509) to satisfy options. In respect of dividends arising on the shares held, the trust waived its rights to all but 0.0001 pence per share. The duty to provide shares to satisfy Sharesave Scheme exercises was assumed by the Bradford & Bingley Employees' Share Trust.

Employees' Restricted Share Bonus Plan

In April 2002 the Employees' Restricted Share Bonus Plan was established to allocate shares to employees following the achievement of specified performance measures. The shares will be released to the individuals in tranches annually in the three years following the allocation or on the third anniversary of the award, depending on the conditions under which they were awarded, and subject to them remaining employed by the Company on the anniversary dates. At the year end there were 4,620 share allocations outstanding (2006: 126,080).

Performance Share Plan

Shares were awarded under the rules of the Bradford & Bingley 2000 Performance Share Plan as detailed in note 31. The shares awarded under this plan have been released and no further awards have been made. There were no outstanding share awards at 31 December 2007 (2006: 1,034,950).

Executive Incentive Plan

The Executive Incentive Plan was established to provide a replacement to the short and long-term incentive plans for senior executives. The short term element consists of a cash payment based on the achievement of pre-determined short term performance measures and an equivalent amount of deferred shares that are held in trust for three years. Dividends receivable on the deferred shares are paid to the underlying beneficial owners of the shares. After three years the long-term element of the scheme may be applied in the form of an additional award of matching shares subject to earnings per share growth. Matching share awards will be made when compound earnings per share growth is between RPI plus 3% and RPI plus 8%. The maximum number of matching shares will be three matching shares for each deferred share. At 31 December 2007 there were 965,410 deferred shares held in trust (2006: 586,088).

Notes to the Financial Statements

30. Reconciliation of changes in equity

Group	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
At 1 January 2007	**158.6**	**4.9**	**25.0**	**(1.5)**	**20.6**	**1,212.3**	**1,419.9**
Net change in available-for-sale instruments	**-**	**-**	**-**	**(60.4)**	**-**	**-**	**(60.4)**
Net change in cash flow hedges	**-**	**-**	**-**	**-**	**(81.0)**	**-**	**(81.0)**
Actuarial gains on post-retirement benefit obligations	**-**	**-**	**-**	**-**	**-**	**37.9**	**37.9**
Net (losses)/gains not recognised in the Income Statement	**-**	**-**	**-**	**(60.4)**	**(81.0)**	**37.9**	**(103.5)**
Profit for the financial year				**-**	**-**	**93.2**	**93.2**
Total recognised (expense)/income	**-**	**-**	**-**	**(60.4)**	**(81.0)**	**131.1**	**(10.3)**
Dividends	**-**	**-**	**-**	**-**	**-**	**(126.5)**	**(126.5)**
Use of own shares on exercise of employee options and for other employee share plans	**-**	**-**	**-**	**-**	**-**	**5.2**	**5.2**
Fair value of share options taken to share option reserve	**-**	**-**	**-**	**-**	**-**	**4.6**	**4.6**
Deficit on share option exercises	**-**	**-**	**-**	**-**	**-**	**(4.8)**	**(4.8)**
Purchase of own shares held to satisfy employee share plans	**-**	**-**	**-**	**-**	**-**	**(18.7)**	**(18.7)**
Purchase and cancellation of own shares	**(4.2)**	**-**	**4.2**	**-**	**-**	**(58.6)**	**(58.6)**
At 31 December 2007	**154.4**	**4.9**	**29.2**	**(61.9)**	**(60.4)**	**1,144.6**	**1,210.8**

Group	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
At 1 January 2006	158.6	4.9	25.0	6.2	15.8	1,129.8	1,340.3
Net change in available-for-sale instruments	-	-	-	(7.7)	-	-	(7.7)
Net change in cash flow hedges	-	-	-	-	4.8	-	4.8
Actuarial gains on post-retirement benefit obligations	-	-	-	-	-	14.1	14.1
Net (losses)/gains not recognised in the Income Statement	-	-	-	(7.7)	4.8	14.1	11.2
Profit for the financial year	-	-	-	-	-	177.7	177.7
Total recognised (expense)/income	-	-	-	(7.7)	4.8	191.8	188.9
Dividends	-	-	-	-	-	(119.2)	(119.2)
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	7.8	7.8
Fair value of share options taken to share option reserve	-	-	-	-	-	4.6	4.6
Deficit on share option exercises	-	-	-	-	-	(2.5)	(2.5)
At 31 December 2006	158.6	4.9	25.0	(1.5)	20.6	1,212.3	1,419.9

Company	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
At 1 January 2007	**158.6**	**4.9**	**25.0**	**(1.4)**	**20.6**	**981.4**	**1,189.1**
Net change in available-for-sale instruments	**-**	**-**	**-**	**(60.5)**	**-**	**-**	**(60.5)**
Net change in cash flow hedges	**-**	**-**	**-**	**-**	**(81.0)**	**-**	**(81.0)**
Actuarial gains on post-retirement benefit obligations	**-**	**-**	**-**	**-**	**-**	**37.9**	**37.9**
Net (losses)/gains not recognised in the Income Statement	**-**	**-**	**-**	**(60.5)**	**(81.0)**	**37.9**	**(103.6)**
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**38.2**	**38.2**
Total recognised (expense)/income	**-**	**-**	**-**	**(60.5)**	**(81.0)**	**76.1**	**(65.4)**
Dividends	**-**	**-**	**-**	**-**	**-**	**(126.5)**	**(126.5)**
Use of own shares on exercise of employee options and for other employee share plans	**-**	**-**	**-**	**-**	**-**	**5.2**	**5.2**
Fair value of share options taken to share option reserve	**-**	**-**	**-**	**-**	**-**	**4.6**	**4.6**
Deficit on share option exercises	**-**	**-**	**-**	**-**	**-**	**(4.8)**	**(4.8)**
Purchase of own shares held to satisfy employee share plans	**-**	**-**	**-**	**-**	**-**	**(18.7)**	**(18.7)**
Purchase and cancellation of own shares	**(4.2)**	**-**	**4.2**	**-**	**-**	**(58.6)**	**(58.6)**
At 31 December 2007	**154.4**	**4.9**	**29.2**	**(61.9)**	**(60.4)**	**858.7**	**924.9**

30. Reconciliation of changes in equity continued

Company	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
As at 1 January 2006	158.6	4.9	25.0	6.2	15.8	925.2	1,135.7
Net change in available-for-sale instruments	-	-	-	(7.6)	-	-	(7.6)
Net change in cash flow hedges	-	-	-	-	4.8	-	4.8
Actuarial losses on post-retirement benefit obligations	-	-	-	-	-	14.1	14.1
Net (losses)/gains not recognised in the Income Statement	-	-	-	(7.6)	4.8	14.1	11.3
Profit for the financial year	-	-	-	-	-	151.4	151.4
Total recognised (expense)/income	-	-	-	(7.6)	4.8	165.5	162.7
Dividends	-	-	-	-	-	(119.2)	(119.2)
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	7.8	7.8
Fair value of share options taken to share option reserve	-	-	-	-	-	4.6	4.6
Deficit on share option exercises	-	-	-	-	-	(2.5)	(2.5)
As at 31 December 2006	158.6	4.9	25.0	(1.4)	20.6	981.4	1,189.1

The share premium reserve represents the excess of the consideration received for issued shares over the nominal value of those shares, net of transaction costs.
The capital redemption reserve was created on the sale of surplus conversion shares and to maintain the total amount of capital when shares were repurchased by the Company.
The available-for-sale reserve represents cumulative fair value movements on assets which are still held at the Balance Sheet date and are classified as available-for-sale.
The cash flow hedge reserve represents cumulative fair value movements on financial instruments which are still held at the Balance Sheet date and are effective cash flow hedges.

31. Share-based payments

During the year, the Group had five share-based payment schemes with employees. These are all accounted for by the Group and Company as follows:

Arrangement	Executive Share Option Scheme		Sharesave Scheme									
Nature of the arrangement	Grant of share option	Grant of share options	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme
Date of grant	25/2/03	14/8/03	20/3/03	20/3/03	18/3/04	18/3/04	24/3/05	24/3/05	17/3/06	17/3/06	15/3/07	15/3/07
Number of instruments granted	1,368,230	59,608	1,366,351	789,338	1,832,649	427,490	510,251	155,307	419,466	300,192	645,928	201,219
Exercise price	£2.82	£3.07	£2.24	£2.24	£2.45	£2.45	£2.58	£2.58	£3.72	£3.72	£3.73	£3.73
Quoted share price at grant date	£2.77	£3.09	£2.98	£2.98	£3.05	£3.05	£3.06	£3.06	£5.22	£5.22	£4.38	£4.38
Contractual life (years)	10.0	10.0	3.5	5.5	3.5	5.5	3.5	5.5	3.5	5.5	3.5	5.5
Vesting conditions	Earnings per share growth over a 3 year period exceeds the growth in the Retail Price Index over the same period by a minimum of 9%	Earnings per share growth over a 3 year period exceeds the growth in the Retail Price Index over the same period by a minimum of 9%	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement
Settlement	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility	32%	31%	32%	32%	29%	29%	27%	27%	22%	26%	24%	27%
Expected life at grant date (years)	5.0	5.0	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1
Risk-free interest rate	3.8%	4.4%	4.0%	4.2%	4.5%	4.5%	4.6%	4.6%	4.4%	4.4%	5.2%	5.0%
Expected dividend (dividend yield)	4.9%	4.8%	4.6%	4.6%	5.0%	5.0%	5.6%	5.6%	3.3%	3.3%	4.3%	4.3%
Expected annual departures	5%	5%	15%	10%	15%	10%	10%	5%	10%	5%	10%	5%
Fair value per granted instrument determined at grant date	£0.55	£0.65	£0.87	£0.91	£0.76	£0.79	£0.64	£0.67	£1.60	£1.75	£0.97	£1.11
Valuation model	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology

Notes to the Financial Statements

31. Share-based payments continued

Arrangement	Employees' Restricted Share Bonus Plan											
Nature of the arrangement	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares
Date of grant	1/1/03	1/1/04	1/1/04	1/1/04	12/3/04	1/1/05	1/1/05	1/1/05	1/1/06	1/1/06	1/1/06	1/1/07
Number of instruments granted	56,966	2,101	2,101	2,101	93,192	1,299	1,299	1,304	1,299	1,299	1,304	41,379*
Exercise price	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Quoted share price at grant date	£2.90	£3.05	£3.05	£3.05	£3.04	£3.36	£3.36	£3.36	£4.11	£4.11	£4.11	£4.79
Contractual life (years)	4.2	2.2	3.2	4.2	3.0	2.2	3.2	4.2	2.2	3.2	4.2	4.2
Vesting conditions	Achievement of individual performance targets in 2003 and still a member of staff at the fourth anniversary of date of grant	Achievement of individual performance targets in 2004 and still a member of staff at the second anniversary of date of grant	Achievement of individual performance targets in 2004 and still a member of staff at the third anniversary of date of grant	Achievement of individual performance targets in 2004 and still a member of staff at the fourth anniversary of date of grant	Still a member of staff at the third anniversary of date of grant	Achievement of individual performance targets in 2005 and still a member of staff at the second anniversary of date of grant	Achievement of individual performance targets in 2005 and still a member of staff at the third anniversary of date of grant	Achievement of individual performance targets in 2005 and still a member of staff at the fourth anniversary of date of grant	Achievement of individual performance targets in 2006 and still a member of staff at the second anniversary of date of grant	Achievement of individual performance targets in 2006 and still a member of staff at the third anniversary of date of grant	Achievement of individual performance targets in 2006 and still a member of staff at the fourth anniversary of date of grant	Achievement of individual performance targets in 2007 and still a member of staff at the fourth anniversary of date of grant
Settlement	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expected life at grant date (years)	4.2	2.2	3.2	4.2	3.0	2.2	3.2	4.2	2.2	3.2	4.2	4.2
Risk-free interest rate	4.1%	4.3%	4.5%	4.6%	4.4%	4.3%	4.3%	4.3%	4.2%	4.2%	4.2%	5.0%
Expected dividend (dividend yield)	4.7%	5.0%	5.0%	5.0%	5.1%	5.0%	5.0%	5.0%	4.2%	4.2%	4.2%	4.0%
Expected annual departures	15%	10%	10%	10%	5%	10%	10%	10%	10%	10%	10%	0%
Fair value per granted instrument determined at grant date	£2.41	£2.76	£2.63	£2.50	£2.61	£3.04	£2.90	£2.76	£3.75	£3.59	£3.44	£4.06
Valuation model	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology

*Estimate to be finalised in 2008

31. Share-based payments continued

Arrangement	Performance Share Plan									Executive Incentive Plan
Nature of the arrangement	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares
Date of grant	23/2/04	23/2/04	28/2/05	28/2/05	28/2/06	28/2/06	22/2/07	22/2/07	22/2/08	22/2/08
Number of instruments granted	871,577	506,666	341,990	341,990	339,111	339,111	490,469	490,469	541,791*	541,791*
Exercise price	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Quoted share price at grant date	£3.10	£3.10	£3.23	£3.23	£4.71	£4.71	£4.60	£4.60	£2.68*	£2.68*
Contractual life (years)	3	3	3	3	3	3	3	3	3	3
Vesting conditions	Total shareholder return of Bradford & Bingley plc compared to a peer group of companies	Total shareholder return of Bradford & Bingley plc compared to a peer group of companies	Achievement of individual performance targets and Group profit in 2004 and still a member of staff at the third anniversary of date of grant	Earnings per share growth of Bradford & Bingley plc over a three year period exceeds annual RPI growth by 3%	Achievement of individual performance targets and Group profit in 2005 and still a member of staff at the third anniversary of date of grant	Earnings per share growth of Bradford & Bingley plc over a three year period exceeds annual RPI growth by 3%	Achievement of individual performance targets and Group profit in 2006 and still a member of staff at the third anniversary of date of grant	Earnings per share growth of Bradford & Bingley plc over a three year period exceeds annual RPI growth by 3%	Achievement of individual performance targets and Group profit in 2007 and still a member of staff at the third anniversary of date of grant	Earnings per share growth of Bradford & Bingley plc over a three year period exceeds annual RPI growth by 3%
Settlement	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility	30%	30%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expected life at grant date (years)	3	3	n/a	3	n/a	3	n/a	n/a	n/a	n/a
Risk-free interest rate	4.5%	4.5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expected dividend (dividend yield)	5.0%	5.0%	5.3%	5.3%	3.7%	3.7%	4.1%	4.1%	4.1%*	4.1%*
Expected annual departures	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Fair value per granted instrument determined at grant date	£1.40	£1.15	£3.23	£2.77	£4.71	£4.20	£4.60	£4.06	£2.68*	£2.37*
Valuation model	Monte Carlo simulation model	Monte Carlo simulation model	Share price at the date the shares are a located	Black-Scholes methodology	Share price at the date the shares are a located	Black-Scholes methodology	Share price at the date the shares are allocated	Black-Scholes methodology	Estimated share price at the date the shares are allocated	Black-Scholes methodology

*Estimate based on share price as at 31 December 2007, to be finalised in 2008.

A Monte Carlo simulation model is used to determine the Performance Share Plan fair value as the arrangements include market-based performance conditions, and to assist in assessing an appropriate expected vesting period for the Executive Share Option Scheme. For other share schemes a Black-Scholes methodology is used to value options.

The expected volatility of share price applied in the option pricing models is based on historic Bradford & Bingley plc share price data over a period equivalent to the expected life of the scheme or since the date of flotation (4 December 2000) if shorter.

Awards granted under the Executive Incentive Plan are granted based on performance in the preceding financial year. The performance criteria include qualitative elements which are not determined until the award date, that is, after the end of the relevant financial year. The grant date therefore occurs after the employees to whom the award is made have begun providing services. In accordance with IFRS 2 'Share-based Payment' the grant date fair value is initially estimated for the purposes of recognising the services received during the period between service commencement date and grant date. The fair value is then revised once the actual grant date has been established.

The following information applies to options outstanding at 31 December 2007 and 31 December 2006:

			At 31 December 2007					At 31 December 2006
Range of exercises prices	**Weighted average exercise price**	**Number of exercisable options (000s)**	**Weighted average remaining life (years) Expected**	**Contractual**	Weighted average exercise price	Number of exercisable options (000s)	Weighted average remaining life (years) Expected	Contractual
£2.00 - £3.00	**£2.8526**	**326,230**	**0.11**	**4.69**	£2.8378	399,633	0.16	5.74

The movements in the number of share options (Executive Share Option Scheme and the Sharesave Scheme) can be summarised as follows:

		2007		2006
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Total number of options outstanding at 1 January	**2,583,487**	**£2.8456**	2,793,592	£2.5194
Granted	**847,654**	**£3.7273**	719,658	£3.7166
Exercised	**(759,614)**	**£2.4917**	(696,698)	£2.4809
Forfeited	**(187,477)**	**£3.3056**	(81,053)	£2.6381
Effect of modifications and cancellations	**(26,626)**	**£2.8170**	(132,819)	£2.7474
Expired	**(148,215)**	**£3.5938**	(19,193)	£2.8167
Total number of options outstanding at 31 December	**2,309,209**	**£3.2006**	2,583,487	£2.8456
Exercisable at 31 December	**326,230**	**£2.8526**	399,633	£2.8378

In addition to the above option schemes, the Group has several pre-2003 schemes which are still to mature, namely Executive Share Option Scheme 2001 and 2002 schemes (336,742 options outstanding at 31 December 2007 (2006: 400,701)). The Sharesave 2002 (5 year) scheme fully matured during 2007.

Notes to the Financial Statements

31. Share-based payments continued

The amount recognised in staff costs for share-based payment transactions with employees may be summarised as follows:

	Group	
	2007 £m	2006 £m
Sharesave Scheme	0.6	0.5
Employees' Restricted Share Bonus Plan	0.1	0.1
Performance Share Plan	-	0.1
Executive Incentive Plan	3.9	3.9
	4.6	4.6

The fair value of the shares for the arrangements in which shares are granted was based on the quoted share price.

32. Capital commitments

At 31 December	Group and Company	
	2007 £m	2006 £m
Capital expenditure contracted for but not provided for	6.6	1.1

33. Operating lease commitments

At 31 December	Group and Company	
	2007 £m	2006 £m
The amounts of rentals payable under non-cancellable operating leases are as follows:		
Payable in less than one year	8.1	7.6
Payable in between one and five years	27.3	24.5
Payable after more than five years	35.9	35.9
Total payable	71.3	68.0

These operating leases relate to land and buildings and equipment.

34. Other commitments

At 31 December	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Irrevocable undrawn loan facilities	1,900.7	2,305.7	75.7	522.0

Irrevocable undrawn loan facilities include lifetime mortgages for which the commitment reflects an estimate of the interest expected to roll up on the loans until redemption; there is no commitment to advance further cash in respect of these loans.

The Company has provided a number of financial guarantees to other Group companies. The Directors do not expect any claims to be made against the Company under these guarantees and hence no provision has been made.

35. Events after the Balance Sheet date

As shown in note 8, on 12 February 2008 the Directors proposed the payment of a dividend of 14.3 pence per share. On 25 January 2008, £645.9m was received in respect of the asset sale described in note 2.

36. Related party disclosures

The key management personnel of the Group and Company are the Company's Executive and Non-Executive Directors and senior managers. The Group and Company have related party relationships with the key management personnel and with the Group's pension schemes. In addition, the Company has related party relationships with its subsidiary undertakings; the Company's principal subsidiaries are listed in note 15, and transactions between the Company and its subsidiaries are on 'arms' length' terms.

A summary of the remuneration of the key management personnel is as follows; these amounts include the remuneration of the Directors which is set out in detail on pages 33 to 39. This gives details of the Company's Directors' salaries, fees, pension entitlements, share options, share plans, other incentives and other benefits. Further details of the accounting treatment of pensions are given in note 25, and further details of the accounting treatment of share-based payments in note 31. The Directors' interests in the Company's shares are shown on page 24, and the Directors were paid the declared dividends in respect of those shares.

Details of the Group's and Company's transactions and balances with the Group's pension schemes are given in note 25. There were no amounts due to or from the schemes at 31 December 2007 (2006: £nil).

Group and Company	2007 £000	2006 £000
Salaries and other short-term benefits	4,144	3,850
Termination benefits	-	434
Post-employment benefits	98	226
Share-based payment	1,731	1,425
Total (included within note 5)	5,973	5,935

36. Related party disclosures continued

The balances due from related parties and value of transactions were as follows:

Group	Key personnel 2007 £000	Key personnel 2006 £000
Debtors outstanding at 1 January	**232**	292
Net movement over the year	**(159)**	(60)
Debtors outstanding at 31 December	**73**	232
Interest earned	**12**	13

Company	Subsidiaries 2007 £m	Subsidiaries 2006 £m	Key personnel 2007 £000	Key personnel 2006 £000
Debtors outstanding at 1 January	**19,648.7**	15,633.8	**-**	26
Net movement over the year	**6,340.9**	4,014.9	**-**	(26)
Debtors outstanding at 31 December	**25,989.6**	19,648.7	**-**	-
Interest earned	**1,110.0**	972.5	**-**	-

The balances with key personnel are mortgages issued on the Group's usual commercial terms, included within 'loans and advances to customers'. The debtors due from subsidiary undertakings are generally repayable on demand, pay interest at a commercial LIBOR-related rate, and are included within 'loans and advances to customers'. No impairment has been recognised on any of these balances.

The balances due to related parties and value of transactions were as follows:

Group	Key personnel 2007 £000	Key personnel 2006 £000
Creditors outstanding at 1 January	**341**	540
Net movement over the year	**706**	(199)
Creditors outstanding at 31 December	**1,047**	341
Interest expense	**23**	16

Company	Subsidiaries 2007 £m	Subsidiaries 2006 £m	Key personnel 2007 £000	Key personnel 2006 £000
Creditors outstanding at 1 January	**15,334.9**	8,237.5	**341**	540
Net movement over the year	**7,086.0**	7,097.4	**706**	(199)
Creditors outstanding at 31 December	**22,420.9**	15,334.9	**1,047**	341
Interest expense	**479.4**	336.5	**23**	16

The balances with key personnel are savings products issued on the Group's usual commercial terms, included within 'customer accounts'.
The creditors due to subsidiary undertakings are generally repayable on demand, bear interest at a commercial LIBOR-related rate, and are included within 'customer accounts'.

In addition to the interest income and expense shown above, the Company had other transactions with its subsidiaries as follows:

	2007 £m	2006 £m
Dividend income	**1.0**	39.6
Management charges	**2.0**	2.1
Other	**3.2**	1.4
	6.2	43.1

The Company had the following transactions and balances with securitisation vehicles and Bradford & Bingley Covered Bonds LLP:

Company	2007 £m	2006 £m
Debtors	**11,577.3**	6,274.0
Creditors	**(19,348.8)**	(11,958.2)
Derivative liabilities	**(44.2)**	(36.4)
Net interest expense	**441.6**	241.5
Management and servicing fee income	**3.2**	2.8

At 31 December 2007 the Company held £753.5m (2006: £nil) of loan notes issued by the Group's securitisation vehicles on which it earned interest of £14.1m during 2007 (2006: £nil). At 31 December 2007 another Group entity held £500.0m (2006: £nil) of loan notes issued under the Covered Bond programme, on which it earned interest of £8.5m during 2007 (2006: £nil). Loans and advances to customers of £8,117.3m (2006: £7,414.7m) were securitised during the year. Further information regarding the securitisations is provided in note 12.

Notes to the Financial Statements

37. Critical accounting judgements and estimates

In preparation of the Group's and Company's Financial Statements, estimates are made which affect the reported amounts of assets and liabilities; estimates are kept under continuous evaluation. Estimates and judgements are based on historical experience, expectations of future events and other factors.

Judgements:
Financial instrument designation
Upon initial designation, a certain amount of judgement is required in ascertaining within which category, as prescribed in IAS 39, a financial instrument should be designated. The IAS 39 categories are detailed in the accounting policies set out in note 1 and the designation is based on the criteria specified in IAS 39. We note that where financial instruments contain an embedded derivative we have not opted to designate the whole instrument as 'at fair value through profit and loss' which is permissible under the standard.

Qualifying hedge relationships
In designating a financial instrument as part of a qualifying hedge relationship the Group and Company have determined that the hedge is expected to be highly effective over the life of the hedging instrument. In accounting for a derivative as a cash flow hedge the Group and Company have determined that the hedged cash flow exposure relates to highly probable future cash flows.

Impairment of debt securities
Critical judgement is applied in determining whether a debt security is impaired. The factors considered in determining whether an asset is impaired are detailed in note 13.

Securitisations
In applying the Group's policies on securitised financial assets, the Group and Company have considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity:
- When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated Financial Statements and the transferred assets continue to be recognised in the Group's Balance Sheet.
- When the Company or another Group entity has transferred financial assets to another entity, but has not transferred substantially all of the risks and rewards relating to the transferred assets, the assets continue to be recognised in the transferring entity's Balance Sheet.

Details of the Group's securitisation activities are given in note 12.

Estimates:
Fair value of debt securities
Debt securities are carried at fair value. The method for calculating fair value of debt securities is described in note 13. For the vast majority of debt securities a reliable market price was available at the year end and has been used as the fair value. For those debt securities where a model has been used rather than the quoted market price there are a number of assumptions used in determining the fair value. If the value of these debt securities, excluding synthetic CDOs, used were to increase or decrease by 10% there would be a £2.7m positive or £2.7m negative impact respectively on the Income Statement. For the debt securities that contain an embedded derivative (the synthetic CDOs), a model has been used in certain cases to determine the fair value of the embedded derivative. A number of assumptions are used in determining the fair value. If the value of these embedded derivatives were to increase or decrease by 10% there would be a £10.3m positive or £10.3m negative impact respectively on the Income Statement.

Effective interest rate
Loans and advances to customers are accounted for on an effective interest rate basis, under which the income is spread over the loan's expected life. On a quarterly basis, models are reviewed to re-assess expected life by portfolio of products based upon actual redemptions by product. If the estimated average life of a loan were increased or reduced by one month the Balance Sheet amount of loans and advances to customers at 31 December 2007 would be higher by £3.6m or lower by £3.8m respectively.

Loan impairment
The Group reviews its loan impairment on a quarterly basis. Impairment models use historical loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. In addition, management applies a risk weighted view on additional factors, such as specific fraud cases. If average house prices were to increase or decrease by 5% the reported impairment at 31 December 2007 would be £9.8m lower or £11.6m higher respectively.

Post-retirement benefit obligations
The net deficit in respect of post-retirement benefit obligations is carried on the Balance Sheet. The value of these obligations is calculated by the Group's actuaries using the assumptions set out in note 25. Note 25 also discloses the impact on the benefit obligations of changes in certain key assumptions.

Provisions
Provisions are carried in respect of certain known or forecast future expenditure, as described in note 26.

38. Capital structure

At 31 December	Group 2007 £m	2006 £m
Tier 1		
Share capital and reserves	**1,210.8**	1,419.9
Adjustments	**81.3**	(74.4)
Net pension deficit	**(4.0)**	50.8
Innovative tier 1	**148.8**	148.8
Total tier 1 capital	**1,436.9**	1,545.1
Upper tier 2 capital	**580.1**	583.8
Lower tier 2 capital	**647.0**	671.7
Total tier 2 capital	**1,227.1**	1,255.5
Deductions	**(146.7)**	(97.2)
Total capital	**2,517.3**	2,703.4

Innovative tier 1 and tier 2 subordinated liabilities exclude any fair value adjustments arising from the hedging of these instruments that are included in the Balance Sheet.

The primary objectives of the banks capital management are to ensure that the bank complies with externally imposed capital requirements, maintains capital ratios to support development of the business and to cover risks inherent in its activities, to maximise shareholder value and to keep strong credit ratings. The Group defines Equity, Subordinated Liabilities and Other Capital Instruments as capital. The bank manages its capital structure in response to changes in the nature of the banks' activities and economic conditions. The bank may return capital to shareholders, adjust the level of dividend or issue capital securities. During the year the bank commenced a share buy back programme to rebalance the mix of capital by changing the proportions of equity and interest bearing tier 1 capital; this was suspended in the later part of the year due to market conditions.

During the year the Group moved from a Basel I method of assessment to a Basel II Standardised regime. The bank's regulatory capital position is shown above. Tier 1 capital excludes statutory accounting deductions for available-for-sale assets and the cash flow hedge reserve but includes a regulatory deduction for intangible assets. Tier 2 capital reflects amortisation of subordinated debt. The Group's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FSA, the UK regulator. The bank must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FSA. The bank has put in place processes and controls to monitor and manage the bank's capital adequacy and no breaches were reported to the FSA during the year.

The Company capital is represented by the capital and reserves attributable to equity holders and is sufficient to meet the needs of the Company in its operations and in payment of dividends.

39. Financial instruments

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value

Group At 31 December 2007 Financial assets	Available-for-sale £m	Assets at fair value through profit or loss - on initial recognition £m	Assets at fair value through profit or loss - held for trading £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
Cash and balances at central banks	-	-	-	209.2	-	209.2	209.2	2.1
Treasury bills	185.0	-	-	-	-	185.0	185.0	1.9
Loans and advances to banks	-	-	-	2,392.1	-	2,392.1	2,392.1	23.9
Loans and advances to customers	-	-	-	40,444.5	-	40,444.5	40,407.2	404.1
Fair value adjustments on portfolio hedging	-	-	-	-	(53.8)	(53.8)	-	-
Debt securities	6,778.7	-	-	-	-	6,778.7	6,778.7	67.8
Derivative financial instruments	-	1,175.4	-	-	-	1,175.4	1,175.4	11.8
Other financial assets	2.1	-	-	658.9	-	661.0	661.0	6.6
Total financial assets	**6,965.8**	**1,175.4**	**-**	**43,704.7**	**(53.8)**	**51,792.1**	**51,808.6**	**518.2**

Notes to the Financial Statements

39. Financial instruments continued

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value continued

Financial liabilities	Liabilities at fair value through profit or loss - on initial recognition £m	Liabilities at fair value through profit or loss - held for trading £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
Deposits by banks	-	-	2,074.3	0.1	2,074.4	2,074.4	20.7
Customer accounts	-	-	24,152.6	-	24,152.6	24,155.1	241.6
Fair value adjustments on portfolio hedging	-	-	-	(5.9)	(5.9)	-	-
Derivative financial instruments	498.6	-	-	-	498.6	498.6	5.0
Debt securities in issue	-	-	21,652.6	655.5	22,308.1	21,914.6	219.1
Subordinated liabilities	-	-	1,249.2	4.5	1,253.7	1,168.9	11.7
Other capital instruments	-	-	148.9	12.7	161.6	117.5	1.2
Other financial liabilities	-	-	141.4	-	141.4	141.4	1.4
Total financial liabilities	**498.6**	**-**	**49,419.0**	**666.9**	**50,584.5**	**50,070.5**	**500.7**

Group At 31 December 2006 Financial assets	Available-for-sale £m	Assets at fair value through profit or loss - on initial recognition £m	Assets at fair value through profit or loss - held for trading £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
Cash and balances at central banks	-	-	-	202.6	-	202.6	202.6	2.0
Loans and advances to banks	-	-	-	3,301.4	-	3,301.4	3,301.4	33.0
Loans and advances to customers	-	-	-	36,131.7	-	36,131.7	35,985.3	359.9
Fair value adjustments on portfolio hedging	-	-	-	-	(70.4)	(70.4)	-	-
Debt securities	5,299.9	-	-	-	-	5,299.9	5,299.9	53.0
Derivative financial instruments	-	291.0	-	-	-	291.0	291.0	2.9
Other financial assets	-	-	-	34.2	-	34.2	34.2	0.3
Total financial assets	5,299.9	291.0	-	39,669.9	(70.4)	45,190.4	45,114.4	451.1

Financial liabilities	Liabilities at fair value through profit or loss - on initial recognition £m	Liabilities at fair value through profit or loss - held for trading £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
Deposits by banks	-	-	1,512.4	-	1,512.4	1,512.4	15.1
Customer accounts	-	-	22,201.1	(0.1)	22,201.0	22,189.6	221.9
Derivative financial instruments	493.4	-	-	-	493.4	493.4	4.9
Debt securities in issue	-	-	18,059.5	(218.2)	17,841.3	17,844.7	178.4
Subordinated liabilities	-	-	1,248.2	(1.2)	1,247.0	1,385.9	13.9
Other capital instruments	-	-	148.9	16.3	165.2	162.2	1.6
Other financial liabilities	-	-	128.5	-	128.5	128.5	1.3
Total financial liabilities	493.4	-	43,298.6	(203.2)	43,588.8	43,716.7	437.1

Company At 31 December 2007 Financial assets	Available-for-sale £m	Assets at fair value through profit or loss - on initial recognition £m	Assets at fair value through profit or loss - held for trading £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
Cash and balances at central banks	-	-	-	209.2	-	209.2	209.2	2.1
Treasury bills	185.0	-	-	-	-	185.0	185.0	1.9
Loans and advances to banks	-	-	-	1,901.9	-	1,901.9	1,901.9	19.0
Loans and advances to customers	-	-	-	51,435.4	-	51,435.4	51,417.7	514.2
Fair value adjustments on portfolio hedging	-	-	-	-	(53.8)	(53.8)	-	-
Debt securities	7,398.2	-	-	-	-	7,398.2	7,398.2	74.0
Derivative financial instruments	-	468.6	-	-	-	468.6	468.6	4.7
Other financial assets	2.1	-	-	657.5	-	659.6	659.6	6.6
Total financial assets	**7,585.3**	**468.6**	**-**	**54,204.0**	**(53.8)**	**62,204.1**	**62,240.2**	**622.5**

39. Financial instruments continued

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value continued

Financial liabilities	Liabilities at fair value through profit or loss - on initial recognition £m	Liabilities at fair value through profit or loss - held for trading £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
Deposits by banks	-	-	**1,658.5**	-	**1,658.5**	**1,658.5**	**16.6**
Customer accounts	**19,279.0**	-	**24,322.8**	-	**43,601.8**	**43,604.3**	**436.0**
Fair value adjustments on portfolio hedging	-	-	-	**(5.9)**	**(5.9)**	-	-
Derivative financial instruments	**483.2**	-	-	-	**483.2**	**483.2**	**4.8**
Debt securities in issue	-	-	**13,897.9**	**511.2**	**14,409.1**	**14,205.4**	**142.1**
Subordinated liabilities	-	-	**1,548.1**	**17.2**	**1,565.3**	**1,437.1**	**14.4**
Other financial liabilities	-	-	**131.0**	-	**131.0**	**131.0**	**1.3**
Total financial liabilities	**19,762.2**	-	**41,558.3**	**522.5**	**61,843.0**	**61,519.5**	**615.2**

Company At 31 December 2006 Financial assets	Available-for-sale £m	Assets at fair value through profit or loss - on initial recognition £m	Assets at fair value through profit or loss - held for trading £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
Cash and balances at central banks	-	-	-	202.6	-	202.6	202.6	2.0
Loans and advances to banks	-	-	-	2,413.5	-	2,413.5	2,413.5	24.1
Loans and advances to customers	-	-	-	41,895.5	-	41,895.5	41,874.4	418.7
Fair value adjustments on portfolio hedging	-	-	-	-	(70.4)	(70.4)	-	-
Debt securities	4,840.9	-	-	-	-	4,840.9	4,840.9	48.4
Derivative financial instruments	-	278.2	-	-	-	278.2	278.2	2.8
Other financial assets	-	-	-	40.3	-	40.3	40.3	0.4
Total financial assets	4,840.9	278.2	-	44,551.9	(70.4)	49,600.6	49,649.9	496.4

Financial liabilities	Liabilities at fair value through profit or loss - on initial recognition £m	Liabilities at fair value through profit or loss - held for trading £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair values increased by 1% £m
Deposits by banks	-	-	885.8	-	885.8	885.8	8.9
Customer accounts	11,919.3	-	22,623.6	(0.1)	34,542.8	34,531.6	345.3
Derivative financial instruments	408.8	-	-	-	408.8	408.8	4.1
Debt securities in issue	-	-	11,538.7	(292.2)	11,246.5	11,241.3	112.4
Subordinated liabilities	-	-	1,546.7	15.1	1,561.8	1,698.1	17.0
Other financial liabilities	-	-	121.7	-	121.7	121.7	1.2
Total financial liabilities	12,328.1	-	36,716.5	(277.2)	48,767.4	48,887.3	488.9

Neither the Group nor the Company recognised any 'day one gains or losses' during the year (2006: £nil).

Cash and balances at central banks and loans and advances to banks: the fair value is their carrying amount.

Loans and advances to customers: where floating rate loans and advances to customers have been issued at market rates we have assumed fair value approximates to book value. Given current market conditions, it is not known whether these fair values are reflective of prices that could be achieved on the open market; however, there is no intent to sell these loans. Fixed rate mortgage balances, within loans and advances to customers, are fair valued using discounted cash flow models, using prevailing market rates, with underlying assumptions based on current market conditions.

Debt securities and treasury bills: fair value has been estimated through reference to market price or specific restructuring proposals. Where no market price exists an assessment has been made as to the value of the security. This assessment is based on modelling the present value of future expected cash flows, using a discount curve adjusted for credit spread and liquidity, utilising information from a number of sources, including fund manager expectations and the performance of other similar securities.

Derivative financial instruments, other financial assets and deposits by banks: the fair value is their carrying amount.

Customer accounts: the fair value is estimated from expected future cash flows, discounted at current market rates.

Debt securities in issue, subordinated liabilities and other capital instruments: the fair value is based upon quoted market prices in active markets or discounted expected cash flows using market rates applicable to the credit quality and maturity of the instrument.

Other financial liabilities: the fair value is their carrying amount.

No financial assets were reclassified during 2007 or 2006 by the Group or Company between amortised cost and fair value categories.

(b) Trading book

During the year the Group commenced trading activities in derivatives. The net trading income for the year, which is all included in the Income Statement within 'realised gains less losses on financial instruments', was £1.0m.

The fair value of these held for trading derivatives at 31 December 2007 was not material and therefore does not appear in note 39a.

Notes to the Financial Statements

39. Financial instruments continued

(c) Interest income and expense on financial instruments that are not at fair value through profit or loss

Total interest income and expense (calculated using the effective interest rate method) on financial instruments that are not at fair value through profit or loss were as follows:

	Group 2007 £m	Group 2006 £m
Interest income	**2,967.5**	2,383.0
Interest expense	**(2,419.8)**	(1,872.8)
Net interest income	**547.7**	510.2

The above includes interest on derivatives which are effective hedging instruments.

(d) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans and advances to customers are detailed in note 11, and in respect of debt securities in note 13.

No impairment loss has been recognised in respect of any other class of financial asset, and no other class of financial asset includes assets that are past due.

(e) Derecognition of financial assets

The following financial assets have been sold but continue to be carried on Balance Sheet because the sale does not qualify for derecognition; the Group remains exposed to the economic risk on the assets because of the sale terms.

Group	2007 Carrying amount of assets £m	2007 Carrying amount of associated liabilities £m	2006 Carrying amount of assets £m	2006 Carrying amount of associated liabilities £m
Repurchase agreements (see also note 39f)	**794.0**	**744.4**	128.4	128.5
Other arrangements	**168.9**	**170.8**	281.3	281.5
	962.9	**915.2**	409.7	410.0

Company	2007 Carrying amount of assets £m	2007 Carrying amount of associated liabilities £m	2006 Carrying amount of assets £m	2006 Carrying amount of associated liabilities £m
Repurchase agreements (see also note 39f)	**1,721.4**	**1,645.9**	628.4	628.5
Other arrangements	**168.9**	**170.8**	281.3	281.5
	1,890.3	**1,816.7**	909.7	910.0

In addition, loans to customers which have been securitised are not derecognised from the Balance Sheet as the originator of the loans retains substantially all of the risks and rewards of the securitised loans (see note 12).

(f) Collateral

All loans and advances made by the Group are secured on property. The secured property can be repossessed in the event of borrower default, in which case the carrying value of the loan is reduced if the estimated recoverable amount is lower than the outstanding balance owed, in accordance with the accounting policy described in note 1. The repossessed property is carried on the Balance Sheet within loans and advances to customers.

A credit exposure could arise in respect of derivative contracts entered into by the Group if the counterparty were unable to fulfil its contractual obligations. The Group addresses the risks associated with these activities by monitoring counterparty credit exposure and requiring additional collateral to be posted or returned as necessary. The only forms of collateral accepted by the Group are cash and government securities. Derivatives are transacted under ISDA with CSA annexes and as such may require collateral to be posted from time to time.

Fair value of collateral which we hold which we can sell or repledge in the absence of default by the owner of the collateral:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Assets under reverse repurchase agreements	**253.4**	0.5	**253.4**	0.5
Cash collateral which we have received in respect of derivatives contracts	**45.2**	123.2	**67.3**	410.5
	298.6	123.7	**320.7**	411.0

None of the above collateral has been sold or repledged.

39. Financial instruments continued

(f) Collateral continued

Carrying amount of financial assets which we have pledged as collateral:

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Assets under repurchase agreements (see also note 39e)	**794.0**	128.4	**1,721.4**	628.4
Cash Ratio Deposit with the Bank of England	**38.2**	34.8	**38.2**	34.8
Cash collateral which we have provided in respect of derivative contracts	**90.9**	79.6	**90.9**	79.6
	923.1	242.8	**1,850.5**	742.8

In addition, certain loans to customers have been securitised, as detailed in note 12. These loans, and also the other financial assets shown above which we have pledged, are carried on the Group's and Company's Balance Sheets.

(g) Hedge accounting

The Group had the following types of hedges:

	2007					2006			
	Nominal amounts £m	**Fair value hedges £m**	**Cash flow hedges £m**	**Non-hedging £m**	**Total £m**	Nominal amounts £m	Fair value hedges £m	Cash flow hedges £m	Total £m
Exchange rate contracts	**12,119.7**	**903.5**	**-**	**-**	**903.5**	9,656.2	33.5	-	33.5
Interest rate contracts	**24,359.5**	**225.4**	**40.4**	**-**	**265.8**	25,673.8	231.6	19.0	250.6
Other derivatives	**16.8**	**6.1**	**-**	**-**	**6.1**	316.8	6.9	-	6.9
Total asset balances	**36,496.0**	**1,135.0**	**40.4**	**-**	**1,175.4**	35,646.8	272.0	19.0	291.0
Exchange rate contracts	**3,432.8**	**135.9**	**-**	**-**	**135.9**	1,439.3	325.1	-	325.1
Interest rate contracts	**20,782.8**	**165.7**	**141.5**	**-**	**307.2**	2,686.9	156.4	3.2	159.6
Other derivatives	**222.6**	**5.8**	**-**	**49.7**	**55.5**	184.6	8.1	0.6	8.7
Total liability balances	**24,438.2**	**307.4**	**141.5**	**49.7**	**498.6**	4,310.8	489.6	3.8	493.4
Fair value of hedging instruments	**12,057.8**	**827.6**	**(101.1)**	**-**	**676.8**	31,336.0	(217.6)	15.2	(202.4)

The Company had the following types of hedges:

	2007					2006			
	Nominal amounts £m	**Fair value hedges £m**	**Cash flow hedges £m**	**Non-hedging £m**	**Total £m**	Nominal amounts £m	Fair value hedges £m	Cash flow hedges £m	Total £m
Exchange rate contracts	**2,957.5**	**196.4**	**-**	**-**	**196.4**	3,642.7	20.8	-	20.8
Interest rate contracts	**23,130.3**	**225.7**	**40.4**	**-**	**266.1**	24,824.3	231.5	19.0	250.5
Other derivatives	**16.8**	**6.1**	**-**	**-**	**6.1**	316.8	6.9	-	6.9
Total asset balances	**26,104.6**	**428.2**	**40.4**	**-**	**468.6**	28,783.8	259.2	19.0	278.2
Exchange rate contracts	**935.0**	**80.0**	**-**	**-**	**80.0**	93.6	203.4	-	203.4
Interest rate contracts	**36,185.0**	**205.6**	**141.5**	**-**	**347.1**	2,686.9	193.5	3.2	196.7
Other derivatives	**222.6**	**6.4**	**-**	**49.7**	**56.1**	184.6	8.1	0.6	8.7
Total liability balances	**37,342.6**	**292.0**	**141.5**	**49.7**	**483.2**	2,965.1	405.0	3.8	408.8
Fair value of hedging instruments	**(11,238.0)**	**136.2**	**(101.1)**	**-**	**(14.6)**	25,818.7	(145.8)	15.2	(130.6)

The Group and Company undertake derivative transactions to hedge risk exposures, and manage risk by use of fair value hedges and cash flow hedges. For those transactions which qualify and are designated as fair value or cash flow hedges, hedge accounting treatment is applied.

Fair value hedges are primarily used to hedge against changes in fair value of fixed rate products due to movements in market interest rates. For the year ended 31 December 2007, the Group recognised fair value losses of £23.5m (2006: gains of £0.3m), representing the ineffective portion of the fair value hedges.

Cash flow hedges are used to hedge the risk of exposure to variability of cash flows attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction. Any gains or losses on cash flow hedges are recorded in equity until the hedged cash flow occurs, whereupon they are transferred to profit or loss for the period. As at 31 December 2007, net losses accumulated in equity were £60.4m (2006: gains of £20.6m).

Hedge effectiveness is measured and assessed on an ongoing basis and was determined to be actually effective throughout the year. Changes in fair values and cash flows of the hedged items were almost fully offset by changes in fair values and cash flows of the hedging instruments, and actual effectiveness was within a range of 80% to 125%.

The Group has recognised embedded derivatives within certain products and has classified them with derivatives in accordance with IAS 39.

Forward starting swaps are entered into, in anticipation of the take up of fixed rate mortgages. These are treated as cash flow hedges. Cash flow ineffectiveness testing incorporates testing for forecast transactions which are no longer expected to occur.

Notes to the Financial Statements

39. Financial instruments continued

(g) Hedge accounting continued

Fair value movements on financial instruments recognised in the Income Statement comprised the following:

	Group	
	2007 £m	2006 £m
Net (losses)/gains on fair value hedging instruments	**(372.6)**	9.9
Net gains/(losses) on fair value hedged items	**349.2**	(9.6)
Ineffectiveness on cash flow hedges	**(0.1)**	-
Total hedge ineffectiveness	**(23.5)**	0.3
Net loss in fair value on embedded derivatives	**(49.7)**	(0.1)
Total fair value movements recognised in the Income Statement	**(73.2)**	0.2

Realised gains less losses on financial instruments recognised in the Income Statement comprised the following:

	Group	
	2007 £m	2006 £m
Realised gains on available-for-sale instruments	**4.5**	2.1
Realised gains on instruments at amortised cost	**1.0**	-
Realised gains on instruments at fair value through profit or loss	**1.0**	-
Total realised gains less losses on financial instruments recognised in the Income Statement	**6.5**	2.1

40. Risk management

(a) A description of the principal risks to which the Group and Company are exposed is provided on pages 18 to 21.
The following table describes the significant activities undertaken by the Group, the risks associated with such activities and the types of derivatives which are typically used in managing such risks.

Activity	Risk	Type of derivative instrument used
Fixed rate savings products and funding activities in Sterling involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and interest rate futures
Fixed and capped rate mortgage lending and investment activities involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and options
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange rates	Cross-currency interest rate swaps and foreign exchange contracts
Equity-linked investment products	Sensitivity to changes in equity indices	Equity-linked swaps
Variable rate products	Sensitivity to changes in interest rates	Interest rate swaps

The accounting policy for derivatives and hedge accounting is described in note 1.

(b) Credit risk

Before taking account of any collateral, the maximum exposure to credit risk at 31 December was:

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Cash and balances at central banks	**209.2**	202.6	**209.2**	202.6
Treasury bills	**185.0**	-	**185.0**	-
Loans and advances to banks	**2,392.1**	3,301.4	**1,901.9**	2,413.5
Loans and advances to customers	**40,444.5**	36,131.7	**51,435.4**	41,895.5
Debt securities	**6,778.7**	5,299.9	**7,398.2**	4,840.9
Derivative financial instruments	**1,175.4**	291.0	**468.6**	278.2
Other financial assets	**661.0**	34.2	**659.6**	40.3
Total on - Balance Sheet	**51,845.9**	45,260.8	**62,257.9**	49,671.0
Irrevocable undrawn loan facilities (off - Balance Sheet) (see note 34)	**1,900.7**	2,305.7	**75.7**	522.0
Total maximum exposure to credit risk	**53,746.6**	47,566.5	**62,333.6**	50,193.0

In respect of loans and advances to banks and customers and derivative financial instruments the Group and Company may hold reverse repurchase agreements and may also hold cash as security (see notes 39e and 39f). Loans and advances to customers are secured on property.

In respect of Lifetime mortgages, the irrevocable undrawn loan facility is calculated using actuarial assumptions. There is no commitment to advance further cash; the commitment reflects interest expected to roll up on the loans until redemption.

40. Risk management continued

(c) Liquidity risk

It should be noted that many financial instruments are settled earlier than their contractual maturity dates; in particular, many mortgage loans are repaid early in full or in part.

The Group closely monitors its liquidity position against the Board's liquidity policy. This policy sets out elements of available and required liquidity through reference to and modelling of net lending commitments, short and medium term wholesale commitments, liquidity reserves, retail deposit growth and the requirement for other payments (e.g. dividends and tax). From this, minimum and target liquidity levels are established. Furthermore, liquidity is also measured in proportion to the total Balance Sheet and is subject to trigger levels; these determine the appropriate levels of escalation in order to address any actual or forecast shortfalls. The liquidity policy also requires stress testing through modelling and assessment of any emerging and potentially extreme funding conditions.

The contractual maturities of financial assets and liabilities were as follows:

Group At 31 December 2007	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years £m	Total £m
Financial assets						
Cash and balances at central banks	**21.0**	**-**	**-**	**-**	**188.2**	**209.2**
Treasury bills	**185.0**	**-**	**-**	**-**	**-**	**185.0**
Loans and advances to banks	**576.3**	**1,561.2**	**54.8**	**73.2**	**126.6**	**2,392.1**
Loans and advances to customers	**-**	**66.9**	**364.9**	**1,295.3**	**38,717.4**	**40,444.5**
Fair value adjustments on portfolio hedging	**(53.8)**	**-**	**-**	**-**	**-**	**(53.8)**
Debt securities	**-**	**2,020.3**	**283.6**	**1,228.8**	**3,246.0**	**6,778.7**
Derivative financial instruments	**-**	**64.3**	**81.2**	**775.0**	**254.9**	**1,175.4**
Other financial assets	**2.1**	**658.9**	**-**	**-**	**-**	**661.0**
Total financial assets	**730.6**	**4,371.6**	**784.5**	**3,372.3**	**42,533.1**	**51,792.1**
Financial liabilities						
Deposits by banks	**361.5**	**667.1**	**331.8**	**714.0**	**-**	**2,074.4**
Customer accounts	**15,325.7**	**1,239.7**	**5,329.3**	**2,257.9**	**-**	**24,152.6**
Fair value adjustments on portfolio hedging	**(5.9)**	**-**	**-**	**-**	**-**	**(5.9)**
Derivative financial instruments	**-**	**8.5**	**64.9**	**287.8**	**137.4**	**498.6**
Debt securities in issue	**-**	**447.1**	**5,283.9**	**13,336.1**	**3,241.0**	**22,308.1**
Subordinated liabilities	**-**	**-**	**-**	**128.1**	**1,125.6**	**1,253.7**
Other capital instruments	**-**	**-**	**-**	**-**	**161.6**	**161.6**
Other financial liabilities	**-**	**141.4**	**-**	**-**	**-**	**141.4**
Total financial liabilities	**15,681.3**	**2,503.8**	**11,009.9**	**16,723.9**	**4,665.6**	**50,584.5**
Group net liquidity gap	**(14,950.7)**	**1,867.8**	**(10,225.4)**	**(13,351.6)**	**37,867.5**	**1,207.6**
Group financial assets at 31 December 2006	1,113.9	3,037.5	1,029.2	3,734.8	36,275.0	45,190.4
Group financial liabilities at 31 December 2006	16,823.7	5,616.0	6,192.9	10,913.8	4,042.4	43,588.8
Group net liquidity gap at 31 December 2006	(15,709.8)	(2,578.5)	(5,163.7)	(7,179.0)	32,232.6	1,601.6

Notes to the Financial Statements

40. Risk management continued

(c) Liquidity risk continued

Company At 31 December 2007	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years £m	Total £m
Financial assets						
Cash and balances at central banks	**21.0**	**-**	**-**	**-**	**188.2**	**209.2**
Treasury bills	**185.0**	**-**	**-**	**-**	**-**	**185.0**
Loans and advances to banks	**340.8**	**1,561.1**	**-**	**-**	**-**	**1,901.9**
Loans and advances to customers	**25,981.6**	**97.5**	**234.0**	**1,115.3**	**24,007.0**	**51,435.4**
Fair value adjustments on portfolio hedging	**(53.8)**	**-**	**-**	**-**	**-**	**(53.8)**
Debt securities	**-**	**1,960.5**	**278.7**	**1,803.9**	**3,355.1**	**7,398.2**
Derivative financial instruments	**-**	**57.4**	**60.1**	**288.3**	**62.8**	**468.6**
Other financial assets	**2.1**	**657.5**	**-**	**-**	**-**	**659.6**
Total financial assets	**26,476.7**	**4,334.0**	**572.8**	**3,207.5**	**27,613.1**	**62,204.1**
Financial liabilities						
Deposits by banks	**115.8**	**554.2**	**781.3**	**207.2**	**-**	**1,658.5**
Customer accounts	**35,691.3**	**1,038.5**	**5,220.8**	**1,651.2**	**-**	**43,601.8**
Fair value adjustments on portfolio hedging	**(5.9)**	**-**	**-**	**-**	**-**	**(5.9)**
Derivative financial instruments	**-**	**30.0**	**65.4**	**258.1**	**129.7**	**483.2**
Debt securities in issue	**-**	**-**	**3,371.4**	**7,766.0**	**3,271.7**	**14,409.1**
Subordinated liabilities	**-**	**-**	**-**	**128.1**	**1,437.2**	**1,565.3**
Other financial liabilities	**-**	**131.0**	**-**	**-**	**-**	**131.0**
Total financial liabilities	**35,801.2**	**1,753.7**	**9,438.9**	**10,010.6**	**4,838.6**	**61,843.0**
Company net liquidity gap	**(9,324.5)**	**2,580.3**	**(8,866.1)**	**(6,803.1)**	**22,774.5**	**361.1**
Company financial assets at 31 December 2006	19,966.1	2,866.0	881.9	3,156.0	22,730.6	49,600.6
Company financial liabilities at 31 December 2006	29,428.5	4,787.6	3,557.3	7,274.4	3,719.6	48,767.4
Company net liquidity gap at 31 December 2006	(9,462.4)	(1,921.6)	(2,675.4)	(4,118.4)	19,011.0	833.2

The contractual undiscounted cash flows associated with financial liabilities were as follows:

Group Financial liabilities At 31 December 2007	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years £m	Total £m
Deposits by banks	**361.5**	**690.7**	**374.9**	**792.5**	**-**	**2,219.6**
Customer accounts	**15,325.7**	**1,361.1**	**5,642.3**	**2,506.3**	**-**	**24,835.4**
Derivative financial instruments	**-**	**41.7**	**118.7**	**90.3**	**(317.4)**	**(66.7)**
Debt securities in issue	**-**	**753.8**	**6,185.7**	**15,516.1**	**5,647.4**	**28,103.0**
Subordinated liabilities	**-**	**17.2**	**51.7**	**389.8**	**1,632.9**	**2,091.6**
Other capital instruments	**-**	**2.2**	**6.7**	**35.6**	**365.2**	**409.7**
Other financial liabilities	**-**	**141.4**	**-**	**-**	**-**	**141.4**
Irrevocable undrawn loan facilities	**312.3**	**-**	**-**	**-**	**-**	**312.3**
Total	**15,999.5**	**3,008.1**	**12,380.0**	**19,330.6**	**7,328.1**	**58,046.3**

Included in the above are the following expected cash flows arising on cash flow hedges (positive = outflow); no impact is anticipated on the Income Statement due to the hedging in place.

Cash flow hedges	**-**	**0.2**	**(15.1)**	**(51.0)**	**(8.3)**	**(74.2)**

40. Risk management continued

(c) Liquidity risk continued

Group Financial liabilities At 31 December 2006	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years £m	Total £m
Deposits by banks	358.1	522.3	330.1	374.6	-	1,585.1
Customer accounts	16,465.6	2,396.5	1,675.4	2,048.5	1.1	22,587.1
Derivative financial instruments	-	77.2	178.9	556.1	243.0	1,055.2
Debt securities in issue	-	2,873.2	4,791.8	9,716.1	4,503.8	21,884.9
Subordinated liabilities	-	15.6	46.8	365.1	1,705.3	2,132.8
Other capital instruments	-	2.1	6.2	33.0	375.7	417.0
Other financial liabilities	-	128.5	-	-	-	128.5
Irrevocable undrawn loan facilities	985.0	-	-	-	-	985.0
Total	17,808.7	6,015.4	7,029.2	13,093.4	6,828.9	50,775.6

Included in the above are the following expected cash flows arising on cash flow hedges (positive = outflow); no impact is anticipated on the Income Statement due to the hedging in place.

Cash flow hedges	-	4.7	(2.9)	3.6	(5.5)	(0.1)

Company Financial liabilities At 31 December 2007	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years £m	Total £m
Deposits by banks	**115.8**	**575.4**	**822.1**	**230.0**	**-**	**1,743.3**
Customer accounts	**35,691.3**	**1,147.3**	**5,504.3**	**1,832.8**	**-**	**44,175.7**
Derivative financial instruments	**-**	**60.0**	**180.7**	**154.3**	**(333.8)**	**61.2**
Debt securities in issue	**-**	**198.1**	**3,965.8**	**9,340.0**	**5,700.9**	**19,204.8**
Subordinated liabilities	**-**	**21.5**	**64.6**	**458.4**	**2,171.1**	**2,715.6**
Other financial liabilities	**-**	**131.0**	**-**	**-**	**-**	**131.0**
Irrevocable undrawn loan facilities	**75.7**	**-**	**-**	**-**	**-**	**75.7**
Total	**35,882.8**	**2,133.3**	**10,537.5**	**12,015.5**	**7,538.2**	**68,107.3**

Included in the above are the following expected cash flows arising on cash flow hedges (positive = outflow); no impact is anticipated on the Income Statement due to the hedging in place.

Cash flow hedges	**-**	**0.2**	**(15.1)**	**(51.0)**	**(8.3)**	**(74.2)**

Company Financial liabilities At 31 December 2006	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years £m	Total £m
Deposits by banks	152.6	422.7	331.7	-	-	907.0
Customer accounts	29,275.9	2,144.4	1,534.4	1,950.9	-	34,905.6
Derivative financial instruments	-	45.3	159.4	392.2	82.0	678.9
Debt securities in issue	-	2,290.8	2,075.8	6,144.7	3,748.8	14,260.1
Subordinated liabilities	-	19.5	58.6	428.0	2,261.6	2,767.7
Other financial liabilities	-	121.7	-	-	-	121.7
Irrevocable undrawn loan facilities	522.0	-	-	-	-	522.0
Total	29,950.5	5,044.4	4,159.9	8,915.8	6,092.4	54,163.0

Included in the above are the following expected cash flows arising on cash flow hedges (positive = outflow); no impact is anticipated on the Income Statement due to the hedging in place.

Cash flow hedges	-	4.7	(2.9)	3.6	(5.5)	(0.1)

The above amounts differ from the Balance Sheet carrying values because the Balance Sheet amounts are based on discounted cashflows, and also because the above amounts include associated cashflows including interest; future interest payments have been estimated based on the Bank of England base rate at the Balance Sheet date of 5.50% (2006: 5.00%).

Subordinated liabilities include perpetual instruments as detailed in note 27. The amounts above assume these instruments will be redeemed on 31 December 2032.

Notes to the Financial Statements

40. Risk management continued

(d) Interest rate risk
Market risk is the potential adverse change in Group income or Group net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

The most significant form of market risk to which the Group is exposed is interest rate risk. This typically arises from mismatches between the re-pricing dates of the interest-bearing assets and liabilities on the Group's Balance Sheet, and from the investment profile of the Group's capital and reserves. Treasury is responsible for managing this exposure within the risk exposure limits set out in the Balance Sheet Management policy, as approved by ALCO and the Board. This policy sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk.

It is ALCO's responsibility to approve strategies for managing market risk exposures and to ensure that Treasury implements the strategies so that the exposures are managed within the Group's approved policy limits.

The Group assesses its exposure to interest rate movements using a number of techniques. However, there are two principal methods:
a) a static framework that considers the impact on the current Balance Sheet of an immediate movement of interest rates; and
b) a dynamic modelling framework that considers the projected change to both the Balance Sheet and product (mortgage and savings) rates over the following year under various interest rate scenarios.
The results of these analyses are presented to senior management in order to identify, measure and manage the Group's exposure to interest rate risk. The Group remained within all its interest rate risk exposure limits during the year and preceding year.

Limits are placed on the sensitivity of the Group Balance Sheet to movements in interest rates. Exposures are reviewed as appropriate by senior management and the Board with a frequency between daily and monthly, related to the granularity of the position. For example, the overall Group Balance Sheet interest rate risk exposure position is monitored monthly whilst several specific portfolios within the Balance Sheet are reviewed more frequently on a daily or weekly basis. This reflects the dynamics and materiality of the various portfolios.

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps and interest rate futures contracts. Interest rate swaps are over-the-counter arrangements with highly rated banking counterparties, while futures contracts are transacted through regulated Futures Exchanges. The Group also uses asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to the Group.

In general, swaps which have been taken out to manage Group interest rate risk are held by the Company even where the related financial instruments are held by other Group entities. In these cases, the Company's interest rate risk is managed by either creating swaps between the Company and the entities which hold the instruments or by setting the interest rate terms on loan balances between the Company and those entities, in each case in order to reduce the Company's interest rate risk to a low and acceptable level.

Interest rate sensitivities are reported to ALCO monthly and are calculated using a range of interest rate scenarios, including non parallel shifts in the yield curve. The sensitivities below are based upon reasonably possible changes in interest rates and they assume parallel shifts in the yield curve. At the Balance Sheet date a 1% increase or decrease in interest rates compared to actual rates would improve/(reduce) annual net interest income by the following amounts, prior to mitigation:

	Group	
	2007 £m	2006 £m
1% increase	**4.4**	0.7
1% decrease	**(8.2)**	4.2

At the Balance Sheet date a 1% increase or decrease in interest rates compared to actual rates would increase/(decrease) equity by the following amounts, prior to mitigation:

	Group	
	2007 £m	2006 £m
1% increase	**(16.0)**	(19.2)
1% decrease	**17.1**	2.6

In January 2007, the Group and Company established a modest trading book, which is subject to a risk limit framework that is reported daily. The trading book held no significant interest rate risk as at 31 December 2007.

40. Risk management continued

(e) Foreign currency risk
The Group's policy is to hedge all material foreign currency exposures. Due to the use of derivatives, at 31 December 2007 and 31 December 2006 the Group and Company had no net material exposure to foreign exchange fluctuations or changes in foreign currency interest rates. The impact on the Group's profit and equity of reasonably possible changes in exchange rates compared to actual rates would have been immaterial at 31 December 2007 and 31 December 2006.

Excluding the effects of derivatives, the amounts of financial assets and liabilities denominated in foreign currencies were:

Group At 31 December 2007	Sterling £m	Euro £m	US$ £m	Other £m	Total £m
Financial assets					
Cash and balances at central banks	**209.2**	**-**	**-**	**-**	**209.2**
Treasury bills	**185.0**	**-**	**-**	**-**	**185.0**
Loans and advances to banks	**2,203.5**	**123.6**	**65.0**	**-**	**2,392.1**
Loans and advances to customers	**40,444.5**	**-**	**-**	**-**	**40,444.5**
Fair value adjustments on portfolio hedging	**(53.8)**	**-**	**-**	**-**	**(53.8)**
Debt securities	**4,308.5**	**1,867.9**	**602.3**	**-**	**6,778.7**
Derivative financial instruments	**1,129.4**	**42.4**	**1.6**	**2.0**	**1,175.4**
Other financial assets	**657.1**	**3.3**	**0.6**	**-**	**661.0**
Total financial assets	**49,083.4**	**2,037.2**	**669.5**	**2.0**	**51,792.1**
Financial liabilities					
Deposits by banks	**1,118.9**	**759.0**	**196.5**	**-**	**2,074.4**
Customer accounts	**23,936.2**	**127.2**	**89.2**	**-**	**24,152.6**
Fair value adjustments on portfolio hedging	**(5.9)**	**-**	**-**	**-**	**(5.9)**
Derivative financial instruments	**448.5**	**37.5**	**9.1**	**3.5**	**498.6**
Debt securities in issue	**5,830.6**	**12,779.9**	**2,541.9**	**1,155.7**	**22,308.1**
Subordinated liabilities	**1,253.7**	**-**	**-**	**-**	**1,253.7**
Other capital instruments	**161.6**	**-**	**-**	**-**	**161.6**
Other financial liabilities	**119.1**	**18.6**	**-**	**3.7**	**141.4**
Total financial liabilities	**32,862.7**	**13,722.2**	**2,836.7**	**1,162.9**	**50,584.5**
Net financial assets/(liabilities)	**16,220.7**	**(11,685.0)**	**(2,167.2)**	**(1,160.9)**	**1,207.6**

Group At 31 December 2006	Sterling £m	Euro £m	US$ £m	Other £m	Total £m
Financial assets					
Cash and balances at central banks	202.6	-	-	-	202.6
Loans and advances to banks	2,997.0	176.5	127.9	-	3,301.4
Loans and advances to customers	36,131.7	-	-	-	36,131.7
Fair value adjustments on portfolio hedging	(70.4)	-	-	-	(70.4)
Debt securities	3,136.5	1,384.5	778.9	-	5,299.9
Derivative financial instruments	264.0	22.1	4.0	0.9	291.0
Other financial assets	16.0	18.2	-	-	34.2
Total financial assets	42,677.4	1,601.3	910.8	0.9	45,190.4
Financial liabilities					
Deposits by banks	751.5	352.9	408.0	-	1,512.4
Customer accounts	21,793.0	237.2	170.8	-	22,201.0
Derivative financial instruments	469.1	22.9	1.4	-	493.4
Debt securities in issue	5,621.6	9,219.7	1,950.2	1,049.8	17,841.3
Subordinated liabilities	1,247.0	-	-	-	1,247.0
Other capital instruments	165.2	-	-	-	165.2
Other financial liabilities	112.5	13.8	-	2.2	128.5
Total financial liabilities	30,159.9	9,846.5	2,530.4	1,052.0	43,588.8
Net financial assets/(liabilities)	12,517.5	(8,245.2)	(1,619.6)	(1,051.1)	1,601.6

Notes to the Financial Statements

40. Risk management continued

(e) Foreign currency risk

Company At 31 December 2007	Sterling £m	Euro £m	US$ £m	Other £m	Total £m
Financial assets					
Cash and balances at central banks	**209.2**	-	-	-	**209.2**
Treasury bills	**185.0**	-	-	-	**185.0**
Loans and advances to banks	**1,713.3**	**123.6**	**65.0**	-	**1,901.9**
Loans and advances to customers	**46,314.4**	**4,304.7**	-	**816.3**	**51,435.4**
Fair value adjustments on portfolio hedging	**(53.8)**	-	-	-	**(53.8)**
Debt securities	**4,928.0**	**1,867.9**	**602.3**	-	**7,398.2**
Derivative financial instruments	**422.6**	**42.4**	**1.6**	**2.0**	**468.6**
Other financial assets	**655.7**	**3.3**	**0.6**	-	**659.6**
Total financial assets	**54,374.4**	**6,341.9**	**669.5**	**818.3**	**62,204.1**
Financial liabilities					
Deposits by banks	**737.0**	**746.5**	**175.0**	-	**1,658.5**
Customer accounts	**43,474.1**	**97.1**	**30.6**	-	**43,601.8**
Fair value adjustments on portfolio hedging	**(5.9)**	-	-	-	**(5.9)**
Derivative financial instruments	**433.1**	**37.5**	**9.1**	**3.5**	**483.2**
Debt securities in issue	**2,825.3**	**10,082.1**	**346.0**	**1,155.7**	**14,409.1**
Subordinated liabilities	**1,565.3**	-	-	-	**1,565.3**
Other financial liabilities	**108.7**	**18.6**	-	**3.7**	**131.0**
Total financial liabilities	**49,137.6**	**10,981.8**	**560.7**	**1,162.9**	**61,843.0**
Net financial assets/(liabilities)	**5,236.8**	**(4,639.9)**	**108.8**	**(344.6)**	**361.1**

Company At 31 December 2006	Sterling £m	Euro £m	US$ £m	Other £m	Total £m
Financial assets					
Cash and balances at central banks	202.6	-	-	-	202.6
Loans and advances to banks	2,109.1	176.5	127.9	-	2,413.5
Loans and advances to customers	37,814.2	3,427.1	-	654.2	41,895.5
Fair value adjustments on portfolio hedging	(70.4)	-	-	-	(70.4)
Debt securities	2,677.5	1,384.5	778.9	-	4,840.9
Derivative financial instruments	251.2	22.1	4.0	0.9	278.2
Other financial assets	22.1	18.2	-	-	40.3
Total financial assets	43,006.3	5,028.4	910.8	655.1	49,600.6
Financial liabilities					
Deposits by banks	165.7	327.6	392.5	-	885.8
Customer accounts	34,226.9	202.4	113.5	-	34,542.8
Derivative financial instruments	384.5	22.9	1.4	-	408.8
Debt securities in issue	2,383.1	6,874.9	938.7	1,049.8	11,246.5
Subordinated liabilities	1,561.8	-	-	-	1,561.8
Other liabilities	105.7	13.8	-	2.2	121.7
Total financial liabilities	38,827.7	7,441.6	1,446.1	1,052.0	48,767.4
Net financial assets/(liabilities)	4,178.6	(2,413.2)	(535.3)	(396.9)	833.2

(f) Concentrations of risk

The Group operates primarily in the UK and adverse changes to the UK economy could impact all areas of the Group's business. Loans and advances to customers are all secured on property in the UK. 59% (2006: 58%) of loans and advances to customers are concentrated in the buy-to-let market; the remaining balances are mainly secured on residential owner-occupied properties.

The Group has investments in a range of debt securities issued by government bodies, banks and building societies, and in asset-backed securities, in both the UK and overseas. UK government securities, bank and supranational securities and bank certificates of deposit comprise 61% (2006: 55%) of debt securities held. 68% (2006: 67%) of the asset-backed securities are UK invested.

Customer accounts comprise investment and savings accounts held by customers. 20% of these (2006: 20%) were opened through direct channels and 11% (2006: 15%) through Bradford & Bingley International Ltd, the Group's deposit taker on the Isle of Man. Debt securities in issue represent bonds, medium term notes and other debt securities issued in a range of countries and currencies with no significant investment by any individual counterparty.

Shareholder Information

Financial calendar 2008

13 Feb	Results for 2007 announced
22 Apr	Annual General Meeting
29 Jul	Interim results for 2008 announced

Ordinary dividend

19 Mar	Ex-dividend date
25 Mar	Record date
11 Apr	DRIP election date
02 May	Payment of final dividend for 2007
20 Aug	Ex-dividend date
22 Aug	Record date
12 Sep	DRIP election date
03 Oct	Payment of interim dividend for 2008

Interest payments

13% Perpetual Subordinated Bonds

7 Apr	Payment of interest
7 Oct	Payment of interest

11.625% Perpetual Subordinated Bonds

20 Jan	Payment of interest
20 Jul	Payment of interest

Internet
Information about the Group can be found on the internet at www.bbg.co.uk

Share price
You are able to keep track of the share price through the financial press, or by visiting our Group website at www.bbg.co.uk or by calling the Shareholder Helpline on 0844 472 6003.

Share dealing service
To buy or sell Bradford & Bingley shares call 0844 472 6003. This service is provided by our Registrar, Computershare and is available to all our shareholders. Please have your Securityholder Reference Number ('SRN') ready when making your call. You will find this on your voting form or your dividend documents.

An internet share dealing service has also been established with our Registrar. Log on to www.computershare.com/dealing/uk and have your SRN ready. A bank debit card will be required if you wish to purchase shares.

For shareholders in the Bradford & Bingley Nominee Account ('BBNA') a postal share dealing service is also available. Please contact the Registrar for details.

Useful contacts
For information about the Annual General Meeting ('AGM'), shareholdings, dividends and changes to personal details please contact the Registrar: Computershare Investor Services PLC, PO Box 1913,
The Pavilions, Bridgwater Road, Bristol BS99 2PR
Telephone: 0844 472 6003.

Institutional investors may wish to contact Investor Relations by calling 01274 806341.

The Summary Financial Statement is posted to shareholders who have not requested a full version of the Annual Report & Accounts and to those members of the BBNA who have requested to receive it, together with the AGM documents and a voting form. A full version of the Annual Report & Accounts is available on our www.bbg.co.uk website. Those shareholders in the BBNA who do not currently receive these documents can make request to do so at anytime by calling the Registrar on 0870 703 0003. The Summary Financial Statement is available in large print, Braille and audio tape format. To request a copy call the Shareholder Helpline on 0844 472 6003.

ShareGift Scheme
Many investors find themselves owning parcels of shares in quantities so small that it would cost more to sell them than they are worth. They may therefore be too small to do anything with, but may still bring a tax liability on any dividends paid and unwanted annual reports and other documents.

Bradford & Bingley plc supports ShareGift, which is administered by The Orr Mackintosh Foundation (registered charity number 1052668). Any shares that you donate to ShareGift will be transferred into the name of The Orr Mackintosh Foundation, who will aggregate them, sell them when possible and donate the proceeds to a growing list of charities. Since ShareGift was started in 1996 millions of pounds have been given to hundreds of charities.

If you would like to participate in the ShareGift scheme, or receive more information about the scheme, they can be contacted by visiting their website at www.sharegift.co.uk, or by calling 020 7930 3737, or by writing to ShareGift, 17 Carlton House Terrace, London SW1Y 5AH.

Dividend Payment Methods
You can choose one of the following methods:
- elect to use your whole cash dividend to buy additional Bradford & Bingley shares under the Dividend Reinvestment Plan; or
- have cash dividends paid direct to a bank or building society account; or
- have cash dividends paid in the form of a cheque

The Company now offers a Dividend Reinvestment Plan that allows you to use your whole cash dividend to buy additional shares in a cost-effective way. Computershare Investor Services PLC run the scheme and you can find further information and also join the Plan on the website www.computershare.com/investors/uk

You can elect to receive your dividends directly into a bank or building society account. You will receive one consolidated tax voucher each year. This will contain the taxation details of all dividends paid in that particular tax year. If you wish to have them credited to a bank or building society account, you will receive a form with the dividend payment enabling you to do this.

Otherwise, dividends will be paid to you by cheque to the address held by the Registrar.

Electronic communications
The Company has set up a facility for shareholders to take advantage of electronic communications. You can vote online and receive notification of shareholder documents electronically.

To cast your AGM vote online log on to www.computershare.com/voting/uk and complete the following steps:
- Choose the Bradford & Bingley meeting
- You will need to enter your SRN and the unique PIN number printed on your voting form
- Enter your choices on screen.

To register your e-mail address so that future shareholder information can be made available to you electronically log on to www.bbg.co.uk and complete the following steps:
- Click on 'Shareholder e-Services'
- Enter the required information and click on 'submit'. You will need your SRN located on your voting form or most recent tax voucher
- Click on 'submit' again and register online.

Electronic proxy appointment through CREST
In addition to providing electronic voting and proxy appointment via our Registrar's website, the Company is supporting the CREST electronic proxy appointment service. Please see the notes on the proxy voting form for details of how to use this service.

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Shareholder Information continued

Shareholders' interests in shares at 31 December 2007*

	Holders	%	Shares	%
Holder range				
1 - 250	840,210	89.366	208,195,177	33.706
251 - 500	77,195	8.211	30,417,049	4.924
501 - 1,000	13,475	1.433	9,686,725	1.568
1,001 - 5,000	8,019	0.853	16,126,503	2.611
5,001 - 10,000	597	0.063	4,299,189	0.696
10,001 - 100,000	438	0.047	12,681,162	2.053
100,001 - 200,000	89	0.009	12,672,375	2.052
200,001 - 500,000	69	0.007	21,900,138	3.546
500,001 - 1,000,000	36	0.004	25,611,192	4.146
1,000,001 - 5,000,000	50	0.005	112,191,413	18.164
5,000,001 and over	17	0.002	163,893,611	26.534
	940,195	100	617,674,534	100
Type of holder				
Individuals	936,707	99.629	97,240,580	15.743
Insurance & other corporates	342	0.036	11,182,650	1.810
Banks & nominees	3,113	0.331	329,255,420	53.306
Pension funds, investment trusts and trustees	33	0.004	179,995,884	29.141
Total	940,195	100	617,674,534	100

*The interests above include holdings in the Bradford & Bingley Nominee Account, certificated and uncertificated holdings.

Shareholder security

Over the last year many companies and the share industry have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. A 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. We are not aware of any Bradford & Bingley shareholders being approached however be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

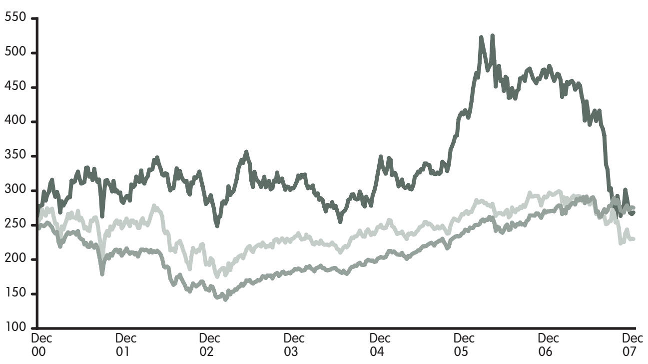
If you receive any unsolicited investment advice:
- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FSA before getting involved. You can check at **www.moneymadeclear.fsa.gov.uk/tools/check_our_register.html**
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered.

If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at **www.moneymadeclear.fsa.gov.uk/contactus.aspx**

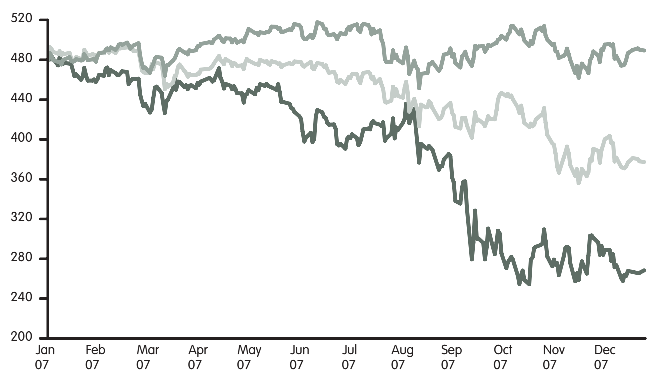
Details of any sharedealing facilities that the Company endorses are included in Bradford & Bingley plc mailings.

More detailed information on this or similar activity can be found on the FSA website **www.moneymadeclear.fsa.gov.uk** This note is based on advice issued by the FSA and the Institute of Chartered Secretaries and Administrators.

Relative share price performance since flotation



Relative share price performance 2007



Bradford & Bingley Group | FTSE 350 Banks (rebased) | FTSE All Share (rebased)

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