

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.

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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

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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.

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.bbq.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.

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	-	-	-

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

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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.