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

Notes to the Financial Statements

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

Notes to the Financial Statements

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.