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.