

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 Investment portfolio At 31 December	Analysis of investment by geographic region						Analysis of investment by type of asset				
	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.