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).