

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).