

30. Reconciliation of changes in equity continued

Company	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
As at 1 January 2006	158.6	4.9	25.0	6.2	15.8	925.2	1,135.7
Net change in available-for-sale instruments	-	-	-	(7.6)	-	-	(7.6)
Net change in cash flow hedges	-	-	-	-	4.8	-	4.8
Actuarial losses on post-retirement benefit obligations	-	-	-	-	-	14.1	14.1
Net (losses)/gains not recognised in the Income Statement	-	-	-	(7.6)	4.8	14.1	11.3
Profit for the financial year	-	-	-	-	-	151.4	151.4
Total recognised (expense)/income	-	-	-	(7.6)	4.8	165.5	162.7
Dividends	-	-	-	-	-	(119.2)	(119.2)
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	7.8	7.8
Fair value of share options taken to share option reserve	-	-	-	-	-	4.6	4.6
Deficit on share option exercises	-	-	-	-	-	(2.5)	(2.5)
As at 31 December 2006	158.6	4.9	25.0	(1.4)	20.6	981.4	1,189.1

The share premium reserve represents the excess of the consideration received for issued shares over the nominal value of those shares, net of transaction costs.

The capital redemption reserve was created on the sale of surplus conversion shares and to maintain the total amount of capital when shares were repurchased by the Company. The available-for-sale reserve represents cumulative fair value movements on assets which are still held at the Balance Sheet date and are classified as available-for-sale.

The cash flow hedge reserve represents cumulative fair value movements on financial instruments which are still held at the Balance Sheet date and are effective cash flow hedges.

31. Share-based payments

During the year, the Group had five share-based payment schemes with employees. These are all accounted for by the Group and Company as follows:

Arrangement	Executive Share Option Scheme										Sharesave Scheme	
	Grant of share option	Grant of share options	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme
Nature of the arrangement												
Date of grant	25/2/03	14/8/03	20/3/03	20/3/03	18/3/04	18/3/04	24/3/05	24/3/05	17/3/06	17/3/06	15/3/07	15/3/07
Number of instruments granted	1,368,230	59,608	1,366,351	789,338	1,832,649	427,490	510,251	155,307	419,466	300,192	645,928	201,219
Exercise price	£2.82	£3.07	£2.24	£2.24	£2.45	£2.45	£2.58	£2.58	£3.72	£3.72	£3.73	£3.73
Quoted share price at grant date	£2.77	£3.09	£2.98	£2.98	£3.05	£3.05	£3.06	£3.06	£5.22	£5.22	£4.38	£4.38
Contractual life (years)	10.0	10.0	3.5	5.5	3.5	5.5	3.5	5.5	3.5	5.5	3.5	5.5
Vesting conditions	Earnings per share growth over a 3 year period exceeds the growth in the Retail Price Index over the same period by a minimum of 9%	Earnings per share growth over a 3 year period exceeds the growth in the Retail Price Index over the same period by a minimum of 9%	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement
Settlement	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility	32%	31%	32%	32%	29%	29%	27%	27%	22%	26%	24%	27%
Expected life at grant date (years)	5.0	5.0	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1
Risk-free interest rate	3.8%	4.4%	4.0%	4.2%	4.5%	4.5%	4.6%	4.6%	4.4%	4.4%	5.2%	5.0%
Expected dividend (dividend yield)	4.9%	4.8%	4.6%	4.6%	5.0%	5.0%	5.6%	5.6%	3.3%	3.3%	4.3%	4.3%
Expected annual departures	5%	5%	15%	10%	15%	10%	10%	5%	10%	5%	10%	5%
Fair value per granted instrument determined at grant date	£0.55	£0.65	£0.87	£0.91	£0.76	£0.79	£0.64	£0.67	£1.60	£1.75	£0.97	£1.11
Valuation model	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology

Notes to the Financial Statements

31. Share-based payments continued

Arrangement Nature of the arrangement	Employees' Restricted Share Bonus Plan											
	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares
Date of grant	1/1/03	1/1/04	1/1/04	1/1/04	12/3/04	1/1/05	1/1/05	1/1/05	1/1/06	1/1/06	1/1/06	1/1/07
Number of instruments granted	56,966	2,101	2,101	2,101	93,192	1,299	1,299	1,304	1,299	1,299	1,304	41,379*
Exercise price	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Quoted share price at grant date	£2.90	£3.05	£3.05	£3.05	£3.04	£3.36	£3.36	£3.36	£4.11	£4.11	£4.11	£4.79
Contractual life (years)	4.2	2.2	3.2	4.2	3.0	2.2	3.2	4.2	2.2	3.2	4.2	4.2
Vesting conditions	Achievement of individual performance targets in 2003 and still a member of staff at the fourth anniversary of date of grant	Achievement of individual performance targets in 2004 and still a member of staff at the second anniversary of date of grant	Achievement of individual performance targets in 2004 and still a member of staff at the third anniversary of date of grant	Achievement of individual performance targets in 2004 and still a member of staff at the fourth anniversary of date of grant	Still a member of staff at the third anniversary of date of grant	Achievement of individual performance targets in 2005 and still a member of staff at the second anniversary of date of grant	Achievement of individual performance targets in 2005 and still a member of staff at the third anniversary of date of grant	Achievement of individual performance targets in 2005 and still a member of staff at the fourth anniversary of date of grant	Achievement of individual performance targets in 2006 and still a member of staff at the second anniversary of date of grant	Achievement of individual performance targets in 2006 and still a member of staff at the third anniversary of date of grant	Achievement of individual performance targets in 2006 and still a member of staff at the fourth anniversary of date of grant	Achievement of individual performance targets in 2007 and still a member of staff at the fourth anniversary of date of grant
Settlement	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expected life at grant date (years)	4.2	2.2	3.2	4.2	3.0	2.2	3.2	4.2	2.2	3.2	4.2	4.2
Risk-free interest rate	4.1%	4.3%	4.5%	4.6%	4.4%	4.3%	4.3%	4.3%	4.2%	4.2%	4.2%	5.0%
Expected dividend (dividend yield)	4.7%	5.0%	5.0%	5.0%	5.1%	5.0%	5.0%	5.0%	4.2%	4.2%	4.2%	4.0%
Expected annual departures	15%	10%	10%	10%	5%	10%	10%	10%	10%	10%	10%	0%
Fair value per granted instrument determined at grant date	£2.41	£2.76	£2.63	£2.50	£2.61	£3.04	£2.90	£2.76	£3.75	£3.59	£3.44	£4.06
Valuation model	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology

*Estimate to be finalised in 2008

31. Share-based payments continued

Arrangement	Performance Share Plan						Executive Incentive Plan			
	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares	Grant of shares
Nature of the arrangement										
Date of grant	23/2/04	23/2/04	28/2/05	28/2/05	28/2/06	28/2/06	22/2/07	22/2/07	22/2/08	22/2/08
Number of instruments granted	871,577	506,666	341,990	341,990	339,111	339,111	490,469	490,469	541,791*	541,791*
Exercise price	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Quoted share price at grant date	£3.10	£3.10	£3.23	£3.23	£4.71	£4.71	£4.60	£4.60	£2.68*	£2.68*
Contractual life (years)	3	3	3	3	3	3	3	3	3	3
Vesting conditions	Total shareholder return of Bradford & Bingley plc compared to a peer group of companies	Total shareholder return of Bradford & Bingley plc compared to a peer group of companies	Achievement of individual performance targets and Group profit of Bradford & Bingley plc in 2004 and still a member of staff at the third anniversary of date of grant	Earnings per share growth of Bradford & Bingley plc over a three year period exceeds annual RPI growth by 3%	Achievement of individual performance targets and Group profit of Bradford & Bingley plc in 2005 and still a member of staff at the third anniversary of date of grant	Earnings per share growth of Bradford & Bingley plc over a three year period exceeds annual RPI growth by 3%	Achievement of individual performance targets and Group profit of Bradford & Bingley plc in 2006 and still a member of staff at the third anniversary of date of grant	Earnings per share growth of Bradford & Bingley plc over a three year period exceeds annual RPI growth by 3%	Achievement of individual performance targets and Group profit of Bradford & Bingley plc in 2007 and still a member of staff at the third anniversary of date of grant	Earnings per share growth of Bradford & Bingley plc over a three year period exceeds annual RPI growth by 3%
Settlement	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility	30%	30%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expected life at grant date (years)	3	3	n/a	3	n/a	3	n/a	n/a	n/a	n/a
Risk-free interest rate	4.5%	4.5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expected dividend (dividend yield)	5.0%	5.0%	5.3%	5.3%	3.7%	3.7%	4.1%	4.1%	4.1%*	4.1%*
Expected annual departures	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Fair value per granted instrument determined at grant date	£1.40	£1.15	£3.23	£2.77	£4.71	£4.20	£4.60	£4.06	£2.68*	£2.37*
Valuation model	Monte Carlo simulation model	Monte Carlo simulation model	Share price at the date the shares are allocated	Black-Scholes methodology	Share price at the date the shares are allocated	Black-Scholes methodology	Share price at the date the shares are allocated	Black-Scholes methodology	Estimated share price at the date the shares are allocated	Black-Scholes methodology

*Estimate based on share price as at 31 December 2007, to be finalised in 2008.

A Monte Carlo simulation model is used to determine the Performance Share Plan fair value as the arrangements include market-based performance conditions, and to assist in assessing an appropriate expected vesting period for the Executive Share Option Scheme. For other share schemes a Black-Scholes methodology is used to value options. The expected volatility of share price applied in the option pricing models is based on historic Bradford & Bingley plc share price data over a period equivalent to the expected life of the scheme or since the date of flotation (4 December 2000) if shorter.

Awards granted under the Executive Incentive Plan are granted based on performance in the preceding financial year. The performance criteria include qualitative elements which are not determined until the award date, that is, after the end of the relevant financial year. The grant date therefore occurs after the employees to whom the award is made have begun providing services. In accordance with IFRS 2 'Share-based Payment' the grant date fair value is initially estimated for the purposes of recognising the services received during the period between service commencement date and grant date. The fair value is then revised once the actual grant date has been established.

The following information applies to options outstanding at 31 December 2007 and 31 December 2006:

Range of exercises prices	Weighted average exercise price	At 31 December 2007				At 31 December 2006			
		Number of exercisable options (000s)	Weighted average remaining life (years)		Weighted average exercise price	Number of exercisable options (000s)	Weighted average remaining life (years)		
			Expected	Contractual			Expected	Contractual	
£2.00 - £3.00	£2.8526	326,230	0.11	4.69	£2.8378	399,633	0.16	5.74	

The movements in the number of share options (Executive Share Option Scheme and the Sharesave Scheme) can be summarised as follows:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Total number of options outstanding at 1 January	2,583,487	£2.8456	2,793,592	£2.5194
Granted	847,654	£3.7273	719,658	£3.7166
Exercised	(759,614)	£2.4917	(696,698)	£2.4809
Forfeited	(187,477)	£3.3056	(81,053)	£2.6381
Effect of modifications and cancellations	(26,626)	£2.8170	(132,819)	£2.7474
Expired	(148,215)	£3.5938	(19,193)	£2.8167
Total number of options outstanding at 31 December	2,309,209	£3.2006	2,583,487	£2.8456
Exercisable at 31 December	326,230	£2.8526	399,633	£2.8378

In addition to the above option schemes, the Group has several pre-2003 schemes which are still to mature, namely Executive Share Option Scheme 2001 and 2002 schemes (336,742 options outstanding at 31 December 2007 (2006: 400,701)). The Sharesave 2002 (5 year) scheme fully matured during 2007.

Notes to the Financial Statements

31. Share-based payments continued

The amount recognised in staff costs for share-based payment transactions with employees may be summarised as follows:

	2007 £m	Group 2006 £m
Sharesave Scheme	0.6	0.5
Employees' Restricted Share Bonus Plan	0.1	0.1
Performance Share Plan	-	0.1
Executive Incentive Plan	3.9	3.9
	4.6	4.6

The fair value of the shares for the arrangements in which shares are granted was based on the quoted share price.

32. Capital commitments

At 31 December	Group and Company	
	2007 £m	2006 £m
Capital expenditure contracted for but not provided for	6.6	1.1

33. Operating lease commitments

At 31 December	Group and Company	
	2007 £m	2006 £m
The amounts of rentals payable under non-cancellable operating leases are as follows:		
Payable in less than one year	8.1	7.6
Payable in between one and five years	27.3	24.5
Payable after more than five years	35.9	35.9
Total payable	71.3	68.0

These operating leases relate to land and buildings and equipment.

34. Other commitments

At 31 December	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Irrevocable undrawn loan facilities	1,900.7	2,305.7	75.7	522.0

Irrevocable undrawn loan facilities include lifetime mortgages for which the commitment reflects an estimate of the interest expected to roll up on the loans until redemption; there is no commitment to advance further cash in respect of these loans.

The Company has provided a number of financial guarantees to other Group companies. The Directors do not expect any claims to be made against the Company under these guarantees and hence no provision has been made.

35. Events after the Balance Sheet date

As shown in note 8, on 12 February 2008 the Directors proposed the payment of a dividend of 14.3 pence per share. On 25 January 2008, £645.9m was received in respect of the asset sale described in note 2.

36. Related party disclosures

The key management personnel of the Group and Company are the Company's Executive and Non-Executive Directors and senior managers. The Group and Company have related party relationships with the key management personnel and with the Group's pension schemes. In addition, the Company has related party relationships with its subsidiary undertakings; the Company's principal subsidiaries are listed in note 15, and transactions between the Company and its subsidiaries are on 'arms' length' terms.

A summary of the remuneration of the key management personnel is as follows; these amounts include the remuneration of the Directors which is set out in detail on pages 33 to 39. This gives details of the Company's Directors' salaries, fees, pension entitlements, share options, share plans, other incentives and other benefits. Further details of the accounting treatment of pensions are given in note 25, and further details of the accounting treatment of share-based payments in note 31. The Directors' interests in the Company's shares are shown on page 24, and the Directors were paid the declared dividends in respect of those shares.

Details of the Group's and Company's transactions and balances with the Group's pension schemes are given in note 25. There were no amounts due to or from the schemes at 31 December 2007 (2006: £nil).

Group and Company	2007 £000	2006 £000
Salaries and other short-term benefits	4,144	3,850
Termination benefits	-	434
Post-employment benefits	98	226
Share-based payment	1,731	1,425
Total (included within note 5)	5,973	5,935