

**2. Sale of commercial assets**

	Commercial properties £m	Housing associations £m	Total £m
Net proceeds from sale	(1,890.0)	(2,064.0)	(3,954.0)
Book value of assets sold	1,972.1	2,026.6	3,998.7
	82.1	(37.4)	44.7
Less:			
Costs			13.3
<b>Loss on sale of assets</b>			<b>58.0</b>

In April 2007, the Board took the strategic decision to sell our commercial property and housing association mortgage portfolios in order to focus on the higher margin, high growth, specialist mortgage market to maximise future returns and capital efficiency. The sale of the commercial property and housing association loans completed for £4.0bn.

**3. Net interest income**

	2007 £m	Group 2006 £m
Net interest income	<b>547.7</b>	510.2
Average interest-earning assets ('IEA')	<b>49,743</b>	42,692
Financed by		
- Interest-bearing liabilities	<b>47,904</b>	41,122
- Interest-free liabilities	<b>1,839</b>	1,570
Average rates	%	%
- Gross yield on IEA	<b>5.96</b>	5.57
- Cost of interest-bearing liabilities	<b>(5.05)</b>	(4.55)
Interest spread	<b>0.91</b>	1.02
Contribution of interest-free liabilities	<b>0.19</b>	0.17
<b>Net interest margin</b>	<b>1.10</b>	1.19
Average bank base rate	<b>5.51</b>	4.64
Average 3-month LIBOR	<b>6.00</b>	4.84
Average 3-year swap rate	<b>5.81</b>	5.07

Included within interest receivable and similar income are the following amounts:

	2007 £m	Group 2006 £m
Interest accrued on impaired financial assets	<b>3.7</b>	2.8

**4. Administrative expenses**

	2007 £m	Group 2006 £m
Staff costs (see note 5)	<b>105.7</b>	100.5
Property operating lease rentals	<b>7.7</b>	7.9
Equipment hire	<b>0.6</b>	0.4
Depreciation and amortisation (see notes 18 and 19)	<b>23.7</b>	18.2
Other legal and professional services	<b>26.6</b>	26.2
IT costs	<b>42.6</b>	41.4
Other administrative expenses	<b>73.3</b>	77.0
Ongoing administrative expenses	<b>280.2</b>	271.6
Compensation costs	-	89.4
	<b>280.2</b>	361.0

Compensation costs relate to the provision for potential compensation payments to customers for business written in the past by our independent financial advisory business. The independent financial advisory business which made these sales was closed in 2004.

# Notes to the Financial Statements

## 4. Administrative expenses continued

	Group	
	2007 £m	2006 £m
Remuneration of auditor and associates		
- Statutory audit of the Company and consolidated accounts	0.5	0.5
Fees payable to the Group's auditor and its associates for other services:		
- Auditing of the Company's subsidiaries	0.1	0.2
- Other services pursuant to legislation	0.1	0.2
- Other services relating to taxation	-	0.2
- Regulatory and other services	0.7	0.6
<b>Total</b>	<b>1.4</b>	<b>1.7</b>

## 5. Staff costs and numbers

The average number of persons employed during the year was as follows:

	Full time		Part time		Full time equivalent	
	2007 Number	2006 Number	2007 Number	2006 Number	2007 Number	2006 Number
Group	2,451	2,511	691	663	2,862	2,892
Company	1,811	1,940	534	528	2,246	2,236

The full time equivalent is based on the average hours worked by employees in the year. The total headcount at each year end was:

	Group		Company	
	2007 Number	2006 Number	2007 Number	2006 Number
	3,035	3,154	2,559	2,445

The aggregate costs of these persons were as follows:

	Group	
	2007 £m	2006 £m
Wages and salaries	87.4	78.9
Social security costs	8.7	8.6
Defined benefit pension costs (see note 25d)	3.0	6.7
Defined contribution pension costs (see note 25a)	1.4	1.2
Other post-retirement benefits costs (see note 25d)	0.6	0.5
Equity-settled share based payment (see note 31)	4.6	4.6
	<b>105.7</b>	<b>100.5</b>

## 6. Taxation

	Group	
	2007 £m	2006 £m
Current taxation expense		
- UK corporation tax on profits for the year	6.1	48.5
- Adjustments in respect of previous years	7.3	(13.8)
	<b>13.4</b>	<b>34.7</b>
Foreign taxation	22.1	20.1
<b>Total current taxation</b>	<b>35.5</b>	<b>54.8</b>
Deferred taxation expense		
- Origination and reversal of temporary differences (see note 17)	(3.4)	14.2
- Change in rate effective 1 April 2008 on deferred tax items	0.7	-
<b>Total taxation expense per the Income Statement</b>	<b>32.8</b>	<b>69.0</b>
The following tax was recognised directly in equity during the year		
- Relating to available-for-sale debt securities	25.9	3.2
The following tax was recognised in equity during the year in deferred tax		
- Relating to cash flow hedge reserve	32.3	(8.9)
- Relating to actuarial gains and losses on post-retirement benefit obligations	(15.4)	(5.9)
- Relating to share-based payments	(1.5)	0.5
<b>Net credit/(charge) to equity</b>	<b>41.3</b>	<b>(11.1)</b>

The 2007 foreign taxation charge includes a charge of £nil (2006: £nil) in respect of previous periods.