Annual Report & Accounts 2009

Bradford & Bingley

Our Mission is:

‘Protecting and creating value for the taxpayer by being the UK’s most effective mortgage servicer’

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Chairman's statement

2009 was Bradford & Bingley's first full year as a nationalised company. We published our Business Plan in March 2009 and received approval of our European Union (the 'EU') State Aid application on 25 January 2010. At the beginning of the year, we agreed with Her Majesty's Treasury ('HM Treasury') five key financial objectives for 2009 and it is a credit to the entire Bradford & Bingley team that the Group achieved these targets against a background of restructuring and cost reduction.

One of the major issues we had to deal with was the high level of arrears on our mortgage lending. At the end of 2009, there were almost 30,000 customers more than one month in arrears on their mortgage compared to 31,500 customers at the same time in 2008. We continue to work closely with those customers who are experiencing difficulties and during 2009 we made over 12,000 mortgage arrangements to assist customers in difficulty or likely to default on their payments. Good progress has been made on reducing the number of customers migrating to more serious arrears. The number of arrears and possessions cases which were three months or more in arrears at the end of 2008 was just over 17,300. As expected during the recession, this figure increased in 2009 and peaked in April at 21,500 cases. Encouragingly, the number of cases fell to just over 19,000 by the end of 2009.

During the year we have continued with our support of the local Aire Valley community, launching a volunteering initiative enabling colleagues to provide support to local schools, groups and charitable organisations. Colleagues voted Sue Ryder Care at Manorlands as Bradford & Bingley's charity of the year for 2009, and have raised money to support this and around 30 other local charities. We also maintained our focus on preventing and alleviating the causes of homelessness through continued support for the Business Action on Homelessness programme, part of Business in the Community.

I would like to thank our Non-executive Directors, Louise Patten and Michael Buckley, for their continued support and commitment. We work closely with UK Financial Investments ('UKFI') who represent HM Treasury, our Shareholder, and Keith Morgan, Head of Wholly-Owned Investments at UKFI attends our Board meetings. The final report of the Walker Review of corporate governance in UK banks recommended the establishment of a Board Risk Committee separate from the Audit Committee and this has been reflected in our new framework agreement with UKFI. We are in the process of appointing a new Non-executive Director who will independently chair either the Audit or Risk Committee. Until that process is complete, the existing composite Audit, Risk & Compliance Committee will continue under Michael Buckley's chairmanship, but will be split into two distinct parts. As mentioned in last year's report, two Executive Directors, Chris Willford and Roger Hattam, stood down upon the appointment of our new Managing Director, Richard Banks, who joined us in April. I would like to take this opportunity to thank Richard for the excellent progress he has made in improving our business operations and building our new management team, restructured for our new priorities.

Over the coming 12 months the Bradford & Bingley team will continue to work hard to achieve our mission of protecting and creating value for the taxpayer by being the UK's most effective mortgage servicer, whilst treating customers and creditors fairly.

Managing Director's review

Following a year of change for Bradford & Bingley ('the Group' or 'the Company'), I am pleased to report that the Group has made substantial progress against its business objectives and met all of the financial objectives agreed with our Shareholder for 2009. Although the Group was loss making, the loss before tax of £196.0m for the year was £82.0m better than the comparable figure in 2008 and £71.0m better than originally planned.

Bradford & Bingley's Business Plan, a summary of which is available on the Group website, sets out the Group's strategic priorities and key objectives as it winds down under public ownership. Its over-arching objectives are to repay the Working Capital Facility ('WCF') and the Statutory Debt to the HM Treasury and the Financial Services Compensation Scheme ('FSCS') as soon as market conditions allow, and to protect and create value for the taxpayer whilst continuing to treat customers and creditors fairly.

Redemptions of £2.5bn were £0.3bn greater than £2.2bn planned. Between February and June 2009, customers on fixed or discounted mortgage deals were offered a waiver of early redemption charges which was a great success and has been reintroduced in 2010. Nevertheless, the level of remortgage activity in the market remains extremely low reflecting the limited appetite of other lenders for the kind of specialist lending that makes up the bulk of Bradford & Bingley's mortgage book. We expect, therefore, the level of redemptions to remain low for a number of years.

Loan impairments and losses were £72.5m lower than forecast but still substantial in a challenging macro-economic environment with house prices still well below their peak, and unemployment rising. Following the launch of the Mortgage Rescue Scheme in January 2009, we now have a dedicated team that liaises with customers, local authorities, registered social landlords and valuers to make access to it much easier and faster for customers. To date, 100 customers have applied for this scheme, with their eligibility determined by the local authority or housing association. We also support the Homeowners Mortgage Support Scheme launched in April 2009, and have had 32 customers apply so far.

The impact of historic mortgage fraud and professional negligence continues to be seen in the losses incurred by Bradford & Bingley in 2009. We are, however, confident that a majority of the cases of fraud and professional negligence have now been identified. A significant degree of management attention has been placed on the collections effort, with staff numbers in the arrears management function increasing by 98.

Good progress has been made in restructuring the business to reflect the Group's strategic priorities with a renewed focus on risk management. The cost base of the business has reduced by 46% despite additional investment in key areas, notably arrears management. Work has also begun on two major projects that will transform our operations and determine the future infrastructure of the business, including the IT solutions and services that the restructured organisation requires. These projects will help to make our business fit for purpose going forward and to achieve our mission of protecting and creating value for the taxpayer by being the UK's most effective mortgage servicer.

Following the sale of the UK and Isle of Man retail deposit business to Abbey National plc ('Abbey') in September 2008, transitional services were successfully provided to them until September 2009. The arrangement was then terminated, enabling Bradford & Bingley to focus entirely on its own business.

During the year we rationalised our two sites in the Aire Valley and the majority of staff are now based in the head office at Crossflatts. We remain committed to developing our people and supporting their learning and development. Around 100 colleagues successfully studied for vocational and professional qualifications in 2009 and going forward we will continue to support those who wish to gain qualifications that are relevant to their roles. I thank all my colleagues at Bradford & Bingley for their dedication and professionalism in enabling the Group to meet its targets this year whilst maintaining a high level of customer service.

The economic environment will continue to be challenging as the UK moves out of recession, with higher levels of unemployment creating payment difficulties for some mortgage borrowers and a restrained housing market. Nevertheless, with the changes we have made in 2009, Bradford & Bingley is in an excellent position to meet these challenges.

Key performance indicators

In addition to the primary Financial Statements, we have adopted the following KPIs in managing the business performance in the context of its strategic priorities.

Strategic priorities	Financial measures	2009	2008	Commentary
Financial performance	(Loss)/profit before tax £m	**(196.0)**	134.3	The year on year movement in statutory (loss)/profit before tax showing a move from profit to loss heavily distorted by two significant items in 2008.
	Adjusted loss before tax £m	**(196.0)**	(278.0)	The adjusted loss excludes the one-off gain made in 2008 from the sale of the retail deposit business to Abbey and an adjustment to net interest income reflecting the lengthening average lives of mortgages giving a more comparable prior year figure. The year on year improvement is a combination of factors as discussed in the Financial review on page 6.
	Net interest margin % Adjusted %*	**1.29**	1.46 1.07	Margin has increased from the 2008 net interest margin having made the adjustment to net interest income stated above. The increase in the spread on interest rate swap contracts taken out in Q4 2008 is a key contributor to this improvement. The fall in base rate in 2009 from 2008 levels reduces the benefit of having £18.4bn Statutory Debt for the full year.
Run down the Balance Sheet	Wholesale asset balances £bn	**6.3**	7.5	The reduction in wholesale assets reflects maturities, sales and reductions in value of the assets in the investment book.
	Lending balances £bn	**39.0**	41.8	Lending balances reduced by 7% during the year due to £2.5bn of redemptions and £0.3bn of other movements.
	Residential mortgage redemption rate %	**6.0**	10.6	The slower redemption rate reflects the low interest environment and a lack of available alternatives for customers to move mortgages as the market has tightened.
	Redemptions £bn	**2.5**	4.2	Redemptions of £2.5bn were £0.3bn greater than planned and partly reflects the success of a waiver of early redemption charges, between February and June, offered to customers on fixed or discounted mortgages.
	Working Capital Facility £bn	**8.5**	2.3	As wholesale debt matures any additional funding required by the Group is provided through the Working Capital Facility arranged with HM Treasury. The drawdown of £8.5bn is within the £11.5bn facility currently agreed with HM Treasury.
Minimise impairment and losses	Residential arrears balance : total mortgage balance %	**0.33**	0.27	The value of customers' missed payments as a proportion of the total balance of all mortgages. Arrears balances owing at the end of 2009 amounted to £124.5m compared to £112.5m at the end of 2008. The balance peaked at £133.0m in May 2009 and has fallen steadily since.
	Residential arrears over 3 months and possessions as % of the book: - by value - by number of accounts	 **7.58** **5.54**	 6.14 4.60	The number of cases at the end of 2009 was 19,159 compared to 17,358 at the end of 2008. During the year 3+ arrears numbers peaked in April at 21,487. The percentage increases are more pronounced as the mortgage book is run down.
	Loan impairment £m	**593.7**	507.7	The increase reflects the increase in the aged status of arrears levels, prudent provisions for suspicious or fraudulent cases and higher than expected losses due to the inclusion of prudent future house price deflation assumptions.
Restructure and realign the business	Cost : assets ratio %	**0.29**	0.50	The sale of the retail deposit business to Abbey in September 2008 and restructuring and rationalising of the residual business have led to a significant reduction in the ongoing cost: asset ratio.
	Costs £m	**137.1**	253.2	Year on year ongoing costs have reduced by £116.1m for the two reasons stated above.

*The adjusted net interest margin reflects the impact of the reduction to net interest income, as a result of the removal of the gain relating to the lengthening of the average lives of mortgages, to give a year on year comparable figure.

Financial review

Summary

Group loss before tax for 2009 was £196.0m. There were two items that significantly affected 2008's income positively, namely the one-off £216.3m gain on the sale of the retail deposit business to Abbey, and a £196.0m adjustment to net interest income due to the lengthening of expected lives of mortgage accounts. Adjusting the 2008 profit figure by this total of £412.3m gives a 2008 loss of £278.0m which compares with the loss of £196.0m in 2009.

The Bank's tier 1 capital ratio ended the period at 8.7% (FY 2008: 8.9%), and no additional capital has been provided since nationalisation. The cost : asset ratio reduced to 0.29% (FY 2008: 0.50%).

Performance

Net operating income was 30% lower in the year at £622.6m (2008: £886.7m). The major reasons for this were net interest income, 17% lower at £612.4m (2008: £737.4m, including £196.0m adjustment for lengthening average lives of mortgages) and fair value losses of £79.1m (2008: £183.0m gain). Ongoing administrative expenses fell £116.1m or 46% to £137.1m (2008: £253.2m). Loan impairment rose £86.0m to £593.7m (2008: £507.7m) and investment impairment decreased to £93.3m (2008: £191.6m). One other item included was a curtailment gain of £13.4m, a result of the closure of the final salary based Bradford & Bingley Staff Pension Scheme with effect from 31 December 2009.

The tax credit was £97.7m (2008: £116.1m charge), being an effective rate of 49.8% (2008: 86.4% charge). The loss after tax was £98.3m compared to a profit of £18.2m in 2008 (see note 7 to the Financial Statements).

Income Statement	**2009**	2008
For the year ended 31 December	**£m**	£m
Net interest income	**612.4**	737.4
Fee and commission income	**52.6**	63.3
Realised losses on financial instruments	**(8.5)**	(120.3)
Fair value movements	**(79.1)**	183.0
Hedge ineffectiveness	**44.1**	18.5
Other operating income	**1.1**	4.8
Net operating income	**622.6**	886.7
Administrative expenses:		
- Ongoing	**(137.1)**	(253.2)
- Other net expenses	**-**	(23.7)
FSCS levy	**(7.9)**	-
Loan impairment loss	**(593.7)**	(507.7)
Investment impairment loss	**(93.3)**	(191.6)
Defined benefit pension scheme curtailment	**13.4**	-
Gain on sale of assets and liabilities	**-**	216.3
Non-operating income	**-**	7.5
(Loss)/profit before taxation	**(196.0)**	134.3
Less adjustment re: lengthening average mortgage lives	**-**	(196.0)
Less gain on the sale of the retail deposit business	**-**	(216.3)
Adjusted loss before taxation	**(196.0)**	(278.0)

Financial review continued

Net interest income

Net interest income was 17% lower at £612.4m (2008: £737.4m). 2008 net interest income included an addition of £196.0m, recognising that the rate of mortgage redemptions had slowed significantly in 2008. Excluding this adjustment, 2009 net interest income was 13% higher than 2008.

Interest-bearing assets fell by £2.7bn to £47.7bn (2008: £50.4bn), the average level of interest-bearing liabilities fell to £27.5bn (2008: £43.6bn) reflecting the full year impact of the sale of the retail deposit business in September 2008 having been replaced by the Statutory Debt.

The yield of interest-earning assets fell to 3.94% (2008: 6.19%) reflecting the drop in interest charged on variable rate mortgages as interest rates fell. Variable rate mortgages made up over half of interest-earning assets, the majority being base rate linked or administered rate which are generally repriced when base rates change.

In 2009 the average interest rate of interest-bearing liabilities was 4.57% (2008: 5.61%). The reduction in LIBOR and base rate since 2008 greatly benefited the cost of funds, but was partially offset by the mix of funding (reflecting the loss of retail deposit balances), the state guarantee fee on unsecured funds and, in particular, the costs of funding the fixed rate mortgage book.

In October 2008, £18.4bn of interest-free Statutory Debt replaced the retail savings balances sold to Abbey. This was in part offset by the costs associated with guarantees provided by HM Treasury on unsecured wholesale deposits and covered bonds. In total, the contribution of interest-free liabilities increased Group net interest margin to 1.92% (2008: 0.88%).

Net interest income	**2009**	2008
For the year ended 31 December	**£m**	£m
Net interest income	**612.4**	737.4
Average balances		
Interest-earning assets ('IEA')	**47,706**	50,433
Financed by:		
Interest-bearing liabilities	**27,509**	43,603
Interest-free liabilities	**20,197**	6,830
Average rates	**%**	%
Gross yield on average IEA	**3.94**	6.19
Cost of interest-bearing liabilities	**(4.57)**	(5.61)
Interest spread	**(0.63)**	0.58
Contribution of interest-free liabilities	**1.92**	0.88
Net interest margin on average IEA	**1.29**	1.46
Average bank base rate	**0.65**	4.68
Average 3-month LIBOR	**1.21**	5.51
Average 3-year swap rate	**2.63**	5.03

Financial review continued

Fee and commission income

Fee and commission income of £52.6m represents a £10.7m fall compared to 2008, mainly due to:

- Lending related - cessation of new mortgage lending, review of arrears charges and lower mortgage redemptions;
- Investment - mainly transfer of this business to Abbey in September 2008 and also normal maturity and attrition of investment renewal policies;
- General insurance - normal attrition of home and contents policies; and
- Other - includes fees charged for the provision of 12 month transitional services by Bradford & Bingley to Abbey (which ceased in September 2009).

Non interest income	**2009**	2008
For the year ended 31 December	**£m**	£m
Lending related	**13.0**	18.7
Investment	**9.6**	18.9
General insurance	**16.0**	18.7
Other	**14.0**	7.0
Total fee and commission income	**52.6**	63.3
Realised losses on financial instruments	**(8.5)**	(120.3)
Fair value movements	**(79.1)**	183.0
Hedge ineffectiveness	**44.1**	18.5
Other operating income	**1.1**	4.8
Total non-interest operating income	**10.2**	149.3

Realised losses on financial instruments

In December 2009 the Group took the decision to sell four Commercial Mortgage Backed Securities ('CMBSs') valued at £47.5m at the point of sale. The loss on the sale of these assets was £8.5m (2008: £120.3m loss). This reflects the strategic imperative to reduce the Balance Sheet. The Group will opportunistically sell assets if there is relative value in the available price compared to the ongoing cost of maintaining them on the Balance Sheet.

Fair value movements

The transfer of the retail deposit business created Balance Sheet interest rate risk. To manage this the Group entered into £7bn of interest rate swap contracts in the final quarter of 2008 and a further £3bn in the first quarter of 2009. This resulted in bringing interest rate risk within acceptable limits. Although these contracts hedge overall Balance Sheet risk they do not meet the accounting definition of a hedge relationship and so movements in the fair value of these hedges are reflected directly in the Income Statement. On the back of rapidly declining fourth quarter market interest rates in 2008, a £176.0m fair value gain was booked last year on these swaps. With interest rates at a low level in 2009, there is limited downside risk on the Balance Sheet, so the decision was taken to dispose of £8bn of these swaps to reduce Income Statement volatility of fair value movements. A further £32m fair value gain has been booked in 2009 on the remaining £2bn swap, partially offset by reductions in value on those disposed of in the year.

Similarly, after the sale of the retail deposit business in 2008, the Group retained around £8bn of interest rate swaps that previously hedged the interest rate risk of fixed rate savings bonds. These swaps no longer satisfy the criteria for hedge accounting and so the change in their fair value was also reflected in the 2008 Income Statement. Much of the 2008 benefit has reversed in 2009 as the book naturally matures, generating a charge to the Income Statement.

Hedge ineffectiveness reflects the accounting adjustment for fair value differences between derivatives in an accounting hedge relationship and the items being hedged. This resulted in a gain of £44.1m (2008: £18.5m gain).

Financial review continued

Other operating income

Other operating income was lower than 2008 mainly due to the sale of branches and property income to Abbey. The 2008 number of £4.8m includes £3.3m of fees collected on behalf of the Group by HML for mortgage administration which, in 2009, is reclassified to lending related income.

Administrative expenses

Ongoing administrative expenses were lower at £137.1m (2008: £253.2m) and the ratio of costs to assets improved from 0.50% to 0.29%. There are two main reasons for the reduction in costs in 2009:

- The sale of the retail deposit business to Abbey in September 2008; and
- Restructuring and rationalising of the residual business to reflect the revised strategic priority of orderly wind-down.

Staff related costs reflect the above with the average number of full time equivalent staff reducing from 2,420 in 2008, to 917 in 2009. At the year end, there were 892 (2008: 942) full time equivalent staff. Lower premises costs in 2009 reflect the transfer of branches to Abbey and site rationalisation. Marketing costs in 2009 primarily support our direct insurance business as the Group ceased both mortgage and savings related marketing spend post nationalisation in September 2008. Other administrative expenses are lower due to the revised scale of operations but also reflect investment in key areas, mainly arrears management, mortgage operations and IT infrastructure for the future. Depreciation charges reduced following the write down of various assets in 2008.

Administrative expenses	2009	2008
For the year ended 31 December	£m	£m
Staff related	**43.3**	104.0
Premises	**5.3**	18.2
Marketing	**2.5**	18.5
Other administrative expenses	**85.6**	93.2
Depreciation and amortisation	**0.4**	19.3
Ongoing administrative expenses	**137.1**	253.2
Other net expenses	**-**	23.7*
Total	**137.1**	276.9
Ratio of ongoing costs to assets %	**0.29**	0.50

*2008 comprised restructuring costs and contract termination fees, net of provision releases.

FSCS levy

The FSCS is the UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation if a firm is unable, or likely to be unable, to pay claims against it. This is usually because it has stopped trading or has been declared in default. Under the FSCS, banks and deposit-taking institutions are required to pay levies to the FSCS where there have been claims to trigger compensation.

In 2009 Bradford & Bingley paid £7.9m (2008: nil) in respect of the FSCS year ending 2008/9, which was based on retail deposits held at 31 December 2007. On the basis that Bradford & Bingley did not hold any retail deposits after 28 September 2008 , it is not expected that the Group will be subject to these special levy charges going forward.

Financial review continued

Arrears and loan impairment – Residential loans

As expected during an economic downturn, arrears levels increased during the year, peaking in April 2009 but encouragingly have fallen steadily since. The total number of cases three months or more in arrears and in possession increased from 17,355 at 2008 year end to 21,487 in April and finished the year at 19,159. The total value of the Group's arrears is now 0.33% of mortgage balances compared to 0.27% in 2008.

Arrears and possessions	2009	2008
For the year ended 31 December	£m	£m
Arrears over 3 months		
-number of cases	**18,197**	16,712
-% of total cases	**5.26**	4.43
-value of cases in arrears (£m)	**2,736.4**	2,404.0
-% of book	**7.17**	5.87
Possessions		
-number of cases	**962**	643
-% of total cases	**0.28**	0.17
-value (£m)	**156.7**	110.1
-% of book	**0.41**	0.27
Total		
-number of cases	**19,159**	17,355
-% of total cases	**5.54**	4.60
-value (£m)	**2,893.1**	2,514.1
-% of book	**7.58**	6.14
-total value of payments overdue (£m)	**124.5**	112.5
-% of total book	**0.33**	0.27
Residential loan impairment allowance		
Impairment allowance (£m)	**884.1**	467.7
-% of residential assets	**2.26**	1.13
-% of arrears and possessions	**30.56**	18.60

Loan provisions

The year end provision for residential loan impairment of £884.1m, compared to £467.7m in 2008, reflects the increase in arrears levels and their aged status, prudent provisions for suspicious or fraudulent cases and higher than expected future losses due to the inclusion of prudent future house price deflation assumptions.

Following a thorough investigation of the mortgage book in 2009, a number of potentially suspicious mortgage portfolios were identified. Based on analysis from our investigations, our total provisions for suspected fraud and professional negligence portfolios have increased from £173.9m in 2008 to £388.4m in 2009. Included within the provision is an amount to account for future house price deflation of £52.0m based on a cautious economic outlook for 2010. As a proportion of balances, the residential impairment provision was 2.26% (2008: 1.13%) and the charge to the income statement was £572.2m (2008: £477.1m).

Losses

During the year, we conducted a thorough review of our serious late arrears cases. Some 2,892 (2008: 1,503) properties were repossessed of which 2,054 (2008: 1,012) were owner occupied and 838 (2008: 491) were buy-to-let. Actual losses on properties sold following repossession were £134.4m.

In addition, our losses on fraudulent and professional negligence cases were £20.4m compared to £15.2m in 2008.

Arrears and loan impairment - commercial and housing loan book

The provision for impairment of the commercial loan book is £52.2m (2008: £30.7m) reflecting the reduction in commercial property values in our portfolio during the year. We continually review the level of provisions based on property value, tenant quality and general market conditions. The book size at year end was £818.9m comprising 72 loans.

Financial review continued

Investment impairment

Throughout the year global economic conditions continued to worsen, impacting our structured finance investment portfolio. Regular reviews of impairment resulted in an impairment charge for investment assets of £93.3m (2008: £191.6m). With the exception of one, all Principal Protected Notes ('PPNs') have now been impaired, plus credit funds whose market price has fallen significantly from par. In addition, 11 asset backed securities ('ABSs') with a nominal value of around £87.0m have been impaired in the year, accounting for £40.1m of the charge in the year.

Non-operating income

Reflects the sale and leaseback income for branches transferred to Abbey in September 2008. No equivalent income was received in 2009.

Taxation

The total credit for tax per the income statement for the year was £97.7m (2008: charge £116.1m). Given the loss before taxation of £196.0m (2008: profit £134.3m) this equates to an effective tax rate credit of 49.8% (2008: 86.4% charge). The difference between this rate and the standard rate of 28% is caused primarily by the recognition of prior year tax losses which were previously in doubt.

Balance Sheet

Balance Sheet summary	**2009**	2008
At 31 December	**£m**	£m
Loans and advances to customers:		
-Residential mortgages	**38,167.3**	40,967.3
-Commercial and other secured loans	**818.9**	858.7
Wholesale assets	**6,321.2**	7,474.3
Fair value adjustments on portfolio hedging	**294.2**	561.3
Derivative financial instruments	**3,660.6**	6,022.9
Fixed and other assets	**132.4**	38.1
Total assets	**49,394.6**	55,922.6
Statutory Debt	**18,416.2**	18,413.9
HM Treasury Working Capital Facility	**8,537.8**	2,275.7
Wholesale funding	**18,400.6**	30,812.9
Derivative financial instruments	**665.6**	1,230.2
Other liabilities	**425.8**	414.7
Interest bearing capital	**1,554.5**	1,617.1
Equity	**1,394.1**	1,158.1
Total liabilities and equity	**49,394.6**	55,922.6

Assets

Lending balances reduced by 7% during the year to £39.0bn (2008: £41.8bn). This reflected £2.5bn of redemptions and £0.3bn of other repayments. Redemptions in 2009 were 6.0% (2008: 10.6%) of opening balances. The slower redemption rate reflects the low interest environment and a lack of available alternatives for customers to move mortgages as the market had tightened. The decline in Balance Sheet size was mainly due to the decrease in value of derivative financial instruments to £3.7bn (2008: £6.0bn). This mainly reflects the impact of the increase in the value of sterling relative to the Euro and US Dollar on the cross-currency interest rate swaps that hedge our foreign currency wholesale borrowings.

Wholesale assets fell to £6.3bn (2008: £7.5bn) reflecting maturities, sales and write downs of the investment book.

Liabilities

The Statutory Debt amounts to £18.4bn (2008: £18.4bn). Wholesale funding decreased to £18.4bn (2008: £30.8bn) reflecting maturing wholesale debt being replaced by the Working Capital Facility of £8.5bn (2008: £2.3bn).

Financial review continued

Capital

Total tier 1 capital of £1,714.8m (2008: £1,793.7m) has reduced by £78.9m mainly reflecting the post tax loss of £98.3m and movements in the available-for-sale and cash flow hedge reserves.

As a result of the deteriorating market for wholesale credit products through the year, the fair value of mortgage backed and other debt securities dropped and this was reflected in the increase of the available-for-sale reserve by £300.9m to a £47.2m debit balance after tax (2008: £348.1m debit).

The cash flow hedge reserve (which records fair value changes in interest rate derivatives deemed to be in cash flow hedge relationships) increased by £108.9m to £39.6m debit after tax (2008: £148.5m debit).

The Board has deferred payment of subordinated coupons since mid-June. Each decision to defer has been taken on a case by case basis.

In the context of the investigation by the European Commission ('EC') to assess whether the State Aid granted to Bradford & Bingley is compatible with the EU treaty and consistent with the Commission's guidance that loss-making banks subject to restructuring should not use State Aid to remunerate equity or subordinated debt holders, the UK Government committed to ensure that Bradford & Bingley would not pay interest and principal on the subordinated debt in the period before the Statutory Debt has been repaid unless it has a contractual obligation to do so. On 25 January 2010 the Commission announced its decision that the State Aid granted to Bradford & Bingley was compatible with the EU treaty.

In light of that commitment, the Company has resolved not to make any payment of interest or principal on any of its subordinated notes during the period prior to the date on which it repays, in full, the Statutory Debt. Consequently, the value of subordinated debt on the Balance Sheet will need to be discounted to reflect the change in anticipated cashflows thereon. Such a decision constitutes a non-adjusting post Balance Sheet event and is therefore included in note 45a together with an estimate of the level of the discount.

Capital structure	**2009**	2008
At 31 December	**£m**	£m
Share capital and reserves	**1,394.1**	1,158.1
Available-for-sale reserve adjustment	**47.2**	348.1
Cash flow hedge reserve adjustment	**39.6**	148.5
Net pension surplus/(deficit) adjustments	**84.9**	(10.0)
Innovative tier 1	**149.0**	149.0
Total tier 1 capital	**1,714.8**	1,793.7
Upper tier 2 capital	**813.2**	584.6
Lower tier 2 capital	**651.7**	676.0
Total tier 2 capital	**1,464.9**	1,260.6
Deductions	**-**	(55.7)
Total capital	**3,179.7**	2,998.6
Risk weighted assets	**19,810.2**	20,156.0
Total tier 1 ratio (%)	**8.7**	8.9
Total capital ratio (%)	**16.1**	14.9

The result is total capital of £3,179.7m (2008: £2,998.6m) a tier 1 ratio of 8.7% (2008: 8.9%) and total capital ratio of 16.1% (2008: 14.9%). Bradford & Bingley has received no additional capital from HM Treasury in the period after nationalisation.

The Group continues to operate under the standardised regime of Basel II.

Our Board

Richard Pym (BSc, FCA)
Chairman
Richard joined the Board as Chief Executive in August 2008 and was appointed Chairman in November 2008. He is also Chairman of the Nominations Committee and a member of the Remuneration Committee. Richard is Non-executive Chairman of Northern Rock (Asset Management) plc, a Non-executive Director of Old Mutual plc, a Non-executive Director of The British Land Company PLC and Non-executive Chairman of BrightHouse Group Ltd. He was Group Chief Executive of Alliance & Leicester plc until July 2007 and prior to that he held a number of financial and general management roles at The Burton Group plc, BAT Industries plc, British Gas and Thomson McLintock & Co. Formerly a Vice President of the British Bankers Association, a Non-executive Director of Selfridges plc, and Chairman of Halfords Group plc, Richard is a Fellow of the Institute of Chartered Accountants in England and Wales and a physics graduate of the University of Warwick.

Richard Banks (BA, ACIB)
Managing Director
Richard joined the Board in May 2009. Richard's career has been in retail and commercial banking; he was previously a Main Board Director of Alliance & Leicester plc where he was Group Risk Director and before that Managing Director of Commercial Banking. He is also a Non-executive Director of ICICI Bank UK PLC and a Non-executive Director of Liverpool Compact which provides work experience for 14-19 year olds. Richard has a BA in Business Studies, and is an Associate of the Chartered Institute of Banking.

Louise Patten (MA (Oxon))
Non-executive Director
Louise joined the Board in December 2003. She is Chairman of the Remuneration Committee and a member of the Audit, Risk & Compliance Committee and Nominations Committee. Louise is a Non-executive Director of Marks and Spencer Group plc as well as senior adviser to Bain & Co. She began her career at Citibank and remained in financial services until 1993, when she joined the management consultancy, Bain & Co, as a partner. Her previous experience as a Non-executive Director includes the Hilton Group, Brixton plc, Great Universal Stores and Somerfield.

Michael Buckley (MA, LPh, MSI, FCIB(RoI))
Non-executive Director
Michael joined the Board in July 2007. He is Chairman of the Audit, Risk & Compliance Committee and a member of the Remuneration Committee and the Nominations Committee. Michael is Non-executive Chairman of DCC plc and a Non-executive Director of M&T Corporation in the USA. He is also a senior adviser to a number of privately held Irish and international companies and is an Adjunct Professor at the Department of Economics at NUI University College, Cork. He was Group Chief Executive of Allied Irish Banks plc from 2001 to 2005 having earlier served as Managing Director of AIB Capital Markets and AIB Poland. Previously, he was Managing Director of the NCB Group, a Non-executive Director of Bramdean Alternatives Ltd and a senior public servant in Ireland and the EU.

Our Board continued

Directors
Details of Board appointments and retirements during 2009 are shown below:

Richard Banks	**Appointed 1 May 2009**
Roger Hattam	**Resigned 30 June 2009**
Chris Willford	**Resigned 30 June 2009**
Richard Pym	**Executive Chairman until 30 June 2009 and Non-executive Chairman thereafter**
Richard Pym	**Director for the whole of 2009**
Louise Patten	**Director for the whole of 2009**
Michael Buckley	**Director for the whole of 2009**

Board and Committee Meetings
During 2009 the number of meetings attended by each Director was as follows:

	Board	Audit, Risk & Compliance Committee	Remuneration Committee	Nominations Committee
Number of meetings held	**14**	**5**	**8**	**7**
Richard Pym - Chairman	14/14		5/5	7/7
Louise Patten	14/14	5/5	8/8	7/7
Chris Willford - Resigned 30 June 2009	7/7			
Roger Hattam - Resigned 30 June 2009	7/7			
Michael Buckley	14/14	5/5	8/8	7/7
Richard Banks - Appointed 1 May 2009	11/11			

In addition, there were five further Board meetings and two Board committee meetings which dealt with specific technical issues where it had been agreed prior to the meeting that only a restricted number of Directors needed to attend.

Throughout 2009, the Chairman of each Committee was as follows:

Michael Buckley	**Audit, Risk & Compliance Committee**
Louise Patten	**Remuneration Committee**
Richard Pym	**Nominations Committee**

The current membership of the Committees is set out on pages 16 to 17.

Corporate governance

Introduction
On 29 September 2008, Bradford and Bingley was taken into public ownership in accordance with The Bradford & Bingley plc Transfer of Securities and Property etc. Order (the 'Transfer'). Following the Transfer, Bradford & Bingley's shares were de-listed on 29 September 2008 and transferred to the Treasury Solicitor as nominee for HM Treasury. As a consequence, the full requirements of the United Kingdom Listing Authority's ('UKLA') listing rules and the Combined Code on Corporate Governance no longer apply to the Company. However, the Company intends to operate a corporate governance structure which, as far as practicable, takes appropriate account of best practice for a company listed on the Official List, including the Combined Code on Corporate Governance and the recommendations of the Walker Review.

Governance structure
Since the Transfer, the governance structure has been determined by a framework document (the 'Framework Document') agreed between the Company and its sole Shareholder, HM Treasury. The Framework Document was amended in July 2009 to reflect HM Treasury's decision to transfer the management of its shareholding in the Company to UKFI. A further revision to the Framework Document, which primarily gives the UKFI greater approval rights over strategic options and transactions has been proposed and is expected to be agreed shortly. The Company is, therefore, operating according to the terms of the latest revised Framework Document, which are reflected below and throughout this report.

The relationship between the Company and UKFI, HM Treasury, as Shareholder and provider of financial support, and the FSA as regulator, operates in the context of the over-arching objective of protecting and creating value for the taxpayer, whilst paying due regard to the maintenance of financial stability and to acting in a way that promotes competition. The Framework Document requires that the Company delivers a strategic and funding business plan to achieve these objectives.

The principles of the Framework Document
The relationship between the Company and UKFI operates according to the following principles, under which UKFI (acting on behalf of HM Treasury as shareholder of the Company and provider of financial support):

- Appoints the Chairman of the Board and is entitled to appoint one or more Non-executive Directors;
- Is required to give its consent for the appointment of other members of the Board proposed to be appointed by the Board's Nominations Committee and agrees the terms on which the Directors are appointed and incentivised;
- Agrees with the Board the high level objectives that the Business Plan is designed to achieve and any revisions to the Business Plan (the 'Plan');
- Reviews with the Board from time to time the Company's strategic options;
- Requires that the Board is accountable to it for delivering the agreed Plan;
- Gives the Board the freedom to take the action necessary to deliver the Plan;
- Monitors the Company's performance to satisfy itself that the Plan is on track; and
- Is required to give its consent for certain significant actions.

Implementation of the principles
The following illustrates how the Group implements the principles of the Framework Document:

Board structure and governance
The Board intends to operate the following committees:

- Audit Committee;
- Risk Committee;
- Remuneration Committee; and
- Nominations Committee.

The Board currently operates an Audit, Risk & Compliance Committee, but it is intended to establish a separate Audit Committee and Risk Committee during 2010, in accordance with the Framework Document and the recommendations of the Walker Review.

Further details about the Board Committees and their work are provided on pages 16 to 17.

During 2009 the Board reviewed and updated its governance processes in the light of structural changes and the requirements of the Plan.

Corporate governance continued

Board appointments & composition
UKFI considers that the composition of the Board is a critical factor and seeks to secure an environment in which it shares a common view about Board composition and succession with the Chairman (including size and balance of experience and background). To achieve this:

- The Chairman of the Board and either the Chairman of UKFI or a senior employee nominated by the Chairman of UKFI (the 'Nominated Officer') will discuss and confirm Board composition and succession regularly in the light of performance of the Board and the requirements of the Business Plan;
- UKFI will be entitled to appoint to the Board one or more Non-executive Directors nominated by UKFI (the 'Shareholder Directors'). The Company acknowledges that the Shareholder Directors, if appointed, intend to liaise with and report to representatives of UKFI from time to time in relation to the business of the Company and decisions made or to be made by the Board in order to assist with the exercise of their powers and duties as directors of the Company;
- One or more senior representatives of UKFI will, if so requested by UKFI, attend meetings of the Board of the Company in an observer capacity;
- The Chairman of the Board will discuss with the Nominated Officer any impending changes to Board membership;
- The Chair of the Nominations Committee will meet with the Nominated Officer, as necessary, to discuss any proposed Board changes before they become subject to the formal appointment/consent procedure; and
- The Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chairman of the Board and the Board.

Board responsibilities
The Board is responsible for:

- Setting the Company's strategic aims and for developing and recommending revisions to the Plan to deliver the over-arching objective of protecting and creating value for the taxpayer paying due regard to the maintenance of financial stability and to acting in a way that promotes competition. Any proposed revisions to the Plan will be subject to review by, and approval of, UKFI;
- Delivering the Plan in accordance with the requirements of the Framework Document. In this respect, decisions on the day-to-day running of the Company, subject to the Framework Document and the Company's Articles of Association, rest with the Board in accordance with the Directors' statutory, common law and fiduciary responsibilities. UKFI is committed to giving the Board the freedom necessary to deliver the agreed Plan and will not interfere in day-to-day operational and commercial matters; and
- Ensuring that the necessary financial and human resources are in place for the Company to deliver the agreed Plan and for setting the Company's values and standards and ensuring that its obligations to HM Treasury as Shareholder are understood and met.

The Board has a written schedule of those matters reserved for its determination and those matters reserved for UKFI, in accordance with the Framework Agreement.

Monitoring performance
UKFI will regularly monitor the Company's performance against the Plan by means of the following main mechanisms:

- Monthly (or, at UKFI's request, more frequent) meetings between the Company and UKFI to review performance to date against the Plan; and
- Monthly (or, at UKFI's request, more frequent) financial and business performance monitoring to track the progress of the Plan and the Company's performance against agreed objectives on a timely, regular and appropriate basis.

In addition, UKFI has certain monitoring and information access rights and its approval must be obtained for certain material actions and transactions.

Board Committees
The Board operates a number of Committees, each of which has detailed terms of reference setting out its remit and authority. Details of the membership and role of each Committee are set out below.

Corporate governance continued

Audit, Risk & Compliance Committee
The Audit, Risk & Compliance Committee ('ARCC') currently comprises Michael Buckley (Chairman) and Louise Patten, both of whom are independent Non-executive Directors. The Committee met five times in 2009.

The Committee monitors, reviews and advises the Board on:
- All significant matters relating to the Group's risk strategy and policies;
- All regulatory, prudential and accounting requirements that may affect the Group;
- The effectiveness of the Group's risk management processes and its financial and other internal control systems;
- The integrity of the financial statements and external reporting responsibilities;
- The Group's principal accounting policies;
- The Group's whistleblowing policy; and
- The results of the external audit and any significant matters identified.

The Committee approves the terms of reference for the Internal Audit, Risk and Compliance functions and reviews the adequacy and effectiveness of the activities carried out by those functions. In addition, the Committee reviews the effectiveness of the system of internal control annually in accordance with the Combined Code on Corporate Governance.

The Committee receives reports at each meeting (other than meetings held specifically to consider the Group's results) from:

- The Risk Committee, which is a sub-committee of the Executive Committee (for further details see page 18). The Risk Committee is a management committee with the objective of providing technical oversight and support to the Audit, Risk & Compliance Committee in respect of the key risk and governance issues; and
- The managers responsible for Audit, Risk and Compliance. These reports highlight existing and emerging matters of significance, areas of concern, planned actions, monitoring procedures and any other matters which are likely to impact on internal controls and financial reports.

The Committee is responsible for recommending the appointment, re-appointment and removal of the external auditors. It reviews the scope and results of the annual external audit, its cost effectiveness and the independence and objectivity of the external auditors. The Committee also reviews the nature and extent of non-audit services provided by the external auditor to ensure that these do not impair the auditor's independence or objectivity.

The external auditors may attend all meetings of the Committee and they have direct access to the Committee and its Chairman at all times. The Committee regularly receives reports of reviews conducted throughout the Company by the Internal Audit function.

In 2009, the Committee reviewed the effectiveness of the external auditors and made a recommendation that they be re-appointed for a further 12 months. The Board accepted this recommendation and an appropriate resolution was passed at the 2009 Annual General Meeting.

It is intended to establish separate Audit and Risk Committees during 2010, in accordance with the Framework Document and the recommendations of the Walker Review.

Remuneration Committee
The Remuneration Committee currently comprises Louise Patten (Chairman), Richard Pym and Michael Buckley, all of whom are independent Non-executive Directors. The Committee met eight times in 2009.

Subject to compliance with the requirements of the Framework Document, the Committee is responsible for advising the Board on the remuneration arrangements for Executive Directors. The Committee also reviews and recommends to the Board the remuneration arrangements for those executives directly below board level and the remuneration policies for all other staff.

The Committee takes internal and external professional advice where necessary to discharge its obligations.

Nominations Committee
The Nominations Committee currently comprises Richard Pym (Chairman), Michael Buckley and Louise Patten all of whom are independent Non-executive Directors. The Committee met seven times in 2009.

Subject to compliance with the requirements of the Framework Document, the Committee is responsible for reviewing the composition of the Board and preparing succession plans. The Committee is also responsible for identifying potential Executive and Non-executive Directors and making recommendations to the Board concerning the appointment or re-appointment of Directors, having regard to the requirement for the Board to have the appropriate range of skills and experience.

The Committee also reviews succession and management development plans for key executive roles.

Corporate governance continued

Management Committees
The Group operates a number of Management Committees, details of which are set out below.

Executive Committee
The Executive Committee ('EXCO') provides the Managing Director with support and advice in relation to managing the Group's business. The Committee normally meets three times per month and comprises the Managing Director's direct reports, who collectively manage all of the Group's operations. EXCO also approves all reports which are submitted to the Board.

The following sub-committees of the Executive Committee have been established:

- Risk Committee;
- Change Development Committee; and
- Fraud & Professional Negligence Committee.

Risk Committee
The Risk Committee ('RC') is a sub-committee of the Executive Committee but reports to the Audit, Risk & Compliance Committee. The Committee meets monthly and its membership comprises the Managing Director, Risk Director, Head of Risk, Finance Director, Operations & Services Director, Commercial Director, Head of Collections & Recoveries and other Senior Managers as nominated from time to time. The Risk Committee has a sub-committee, the Assets & Liabilities Committee, which advises the Risk Committee on all matters relating to asset and liability management, wholesale credit and capital adequacy risks.

The primary objectives of the RC are to provide technical oversight of the key risk and governance issues and to support, advise and make recommendations to the Audit, Risk & Compliance Committee, by:

- Understanding the key risks and issues and confirming that they are managed effectively and to an acceptable level in line with the Group's overall strategy;
- Developing the total risk management strategy, approach and policy;
- Defining the governance process for total risk management including liquidity risk, interest rate risk, wholesale credit and capital adequacy risks;
- Making recommendations in relation to the Group's risk appetite and any material changes to operational and residential and commercial lending credit risk and lending exposure policies; and
- Making recommendations for the resolution of critical risks and issues.

Change Development Committee
The Change Development Committee monitors and reviews major projects to ensure the appropriate returns are received from investment in change and prioritises change projects and initiatives.

Fraud & Professional Negligence Committee
The Fraud & Professional Negligence Committee determines the strategy for the management of loans involving fraud and/or professional negligence and ensures that recoveries are maximised.

Relationship between the Chairman and the Managing Director
A clear division of responsibility exists between the Chairman, who is responsible for running the Board, and the Managing Director who has responsibility for running the business. This division is set out in writing and has been approved by the Board.

Induction & Training
The Board requires all newly appointed Directors to undergo a formal induction training programme appropriate to their skills and experience, to ensure that they:

- Are fully aware of their role, duties and responsibilities as a Director; and
- Have a good understanding of the operation of the business, so as to contribute effectively.

The Board also requires Non-executive Directors to undertake relevant ongoing training and development to improve their capabilities and thereby contribute more effectively to Board decision making.

The Board considers on an on-going basis and annually, following the Board Evaluation, whether any thematic training is required.

Corporate governance continued

Board Procedures

To ensure that the Board functions effectively, Directors have full and timely access to all information which may be relevant to the discharge of their duties and obligations. All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules are followed. Where necessary, Directors are able to take independent professional advice at the Company's expense.

Internal Control

The Board is responsible for the Group's system of internal control and seeks regular assurance to satisfy itself that the system is functioning effectively in managing risks in the manner which it has approved. Such a system can only provide reasonable, and not absolute, assurance against material misstatement or loss, as it is designed to manage, rather than eliminate the risk of failure to achieve business objectives. Throughout the year ended 31 December 2009, the Group has operated a system of internal control, which includes an ongoing risk management process for identifying, evaluating and managing the significant risks faced by the Group. During the year, the Board has continued to review the effectiveness of the Group's system of financial and non-financial controls including, operational and compliance controls, risk management, and the Group's most significant risks and mitigating actions.

In addition, as part of the process of preparing this statement, the Board has also performed its annual assessment of the effectiveness of internal controls. The Board of Directors is not aware of any significant failures in internal control that arose in the business of the Group during 2009 that are not being addressed in accordance with the internal control procedures of the Group. Management regularly takes action to improve internal controls, either as a result of its own initiative or in response to reports from Internal Audit and other oversight review functions.

Changes in financial regulation continue within the industry. The Group's risk management processes are kept under regular review to ensure that the Group responds appropriately to both actual and proposed regulatory changes.

The Group operates a risk management process, producing a Group-wide risk profile. This identifies the Group's significant risks, the probability of those risks occurring and their impact should they occur, and has the prime responsibility for the design and operation of suitable controls and mitigating actions. The risk management process is complemented by a formalised reporting and escalation process for control issues. Internal Audit has a key role in maintaining the control environment by providing independent assurance on the effectiveness of the Group's internal control systems. The Risk Committee oversees the risk management process, regularly considers the Group-wide risk profile, and receives monitoring reports to update it on progress.

The Group is committed to developing and maintaining an appropriate risk management framework and culture with the aim of continuing to ensure that management understand the key risks that the business faces. This is achieved through an organisational structure with clear reporting lines and governed by appropriate business monitoring mechanisms, codes of conduct and policy statements.

The system of internal control has been in place throughout 2009 and up to the date of approval of the Annual Report & Accounts.

In reviewing the effectiveness of this system, the Board takes into account the work of the Audit, Risk and Compliance Committee which receives reports from the Risk Committee on the Group's significant risks and how these are being managed. The Board also considers reports from Internal Audit, External Audit, Compliance and management on the system of internal control, adherence to regulatory requirements and material control weaknesses, where these exist, together with actions taken to address them. The Chairman of the Audit, Risk and Compliance Committee reports on the outcome of each meeting to the Board, where appropriate, and the Board also receives minutes of these Committee meetings.

Going Concern

As set out in note 1 to the Financial Statements, HM Treasury has provided various on-demand facilities to the Company and provided comfort to the Directors in relation to the Company's future financing requirements. On 25 January 2010 the EC approved these measures. Accordingly, the Directors are satisfied at the time of approval of the Financial Statements that the Group and the Company have adequate resources to continue in business for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Pages 20 to 23 form an integral part of the audited Financial Statements

Risk management and control

Introduction
In accordance with the requirements in the Framework Document referred to on pages 15 to 16, Bradford & Bingley's approach to risk management is built on formal governance processes and relies on individual responsibility and collective oversight, informed by comprehensive reporting. The following sections describe the approach to risk management. The first section covers the Group's risk governance structure. The second section explains the way in which the Group identifies, categorises and manages the risks it faces.

Other factors could also affect the Group's results, including economic factors. Therefore, the risks described below should not be considered to represent all of the potential risks and uncertainties which could impact the Group.

Risk governance
The responsibility for the overall framework of risk governance and management lies with the Board. The Board is responsible for determining risk strategy, setting the Group's risk appetite and ensuring that risk is monitored and controlled effectively. It is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities. Within that structure, line managers are responsible for the identification, measurement and management of the risks within their areas of responsibility.

The analysis and reporting of our Residential Lending Credit Risks is performed by an outsource partner. The Risk Function provides independent challenge and validation of their work. The identification, measurement and reporting of Wholesale Credit Risk, Market Risk and Liquidity Risk is performed by specialist teams in the Risk Function. Independent monitoring of the risk management framework is also provided by the Risk and Compliance functions.

In addition to individual responsibilities for risk management, there is a structure of committees that, under authority delegated by the Board, have formal responsibility for defined aspects of risk management. During the year, the terms of reference and composition of these committees have changed to align with the organisational and structural changes within the Group.

The roles and responsibilities of the risk management committees are set out in the following paragraphs.

Audit, Risk & Compliance Committee ('ARCC')
The Audit, Risk and Compliance Committee is a non-executive committee. The role of the committee is to monitor, review and respond to the Board on the effectiveness of risk management processes and its financial and other internal control systems (including effective Internal Audit, Risk Management and Compliance functions) and to monitor and review accounting policies and the integrity of the financial statements and external reporting responsibilities.

The Board currently operates an Audit, Risk & Compliance Committee, but it is intended to establish separate Audit and RC during 2010, in accordance with the Framework Document and the recommendations of the Walker Review.

Executive Committee ('EXCO')
EXCO is an advisory committee that supports the Managing Director in managing the Group's business to achieve its strategic objectives.

Risk Committee ('RC')
The RC is a sub-committee of EXCO with a reporting line to ARCC. The primary objectives of the RC are to provide technical oversight of the key risk and governance issues and to support, advise and make recommendations to ARCC.

Asset & Liability Management Committee ('ALCO')
ALCO is a sub-committee of the RC. The primary objectives of ALCO are to support, advise and make recommendations to the RC on asset and liability management (including interest rate, liquidity, and currency risk management, basis risk, margin compression and investment assets), related wholesale credit, and capital adequacy risks and issues.

Credit Risk Committee ('CRC')
During the year the responsibilities of the Credit Risk Committee were transferred to the RC.

Group Risk
The Group Risk function comprises Operational Risk and Financial Risk and its role is to:

- Develop a Group strategy, policy and framework for risk management, aligned with business requirements;
- Provide support to the Group in the implementation of the framework;
- Aggregate analyses of risk concentrations and sensitivities across the Group;
- Act as a point of reference for risk and control matters, providing advice to management, sharing best practice and carrying out special reviews as directed by RC and ALCO; and
- Provide independent assessment of, and challenge to, the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

Pages 20 to 23 form an integral part of the audited Financial Statements

Risk management and control continued

Compliance

The role of Compliance is to:

- Provide assurance to the Board and Executive, through the Audit, Risk and Compliance Committee, that control processes are in operation to manage all non-prudential regulatory risks across the Group;
- Contribute to the continuous improvement of the regulatory environment through provision of advice to the business; and
- Oversee and co-ordinate liaison with the Financial Services Authority on a day to day basis to promote open and co-operative relationships.

Internal Audit

Ernst & Young have been contracted to provide internal audit services, including the provision of a Head of Internal Audit. This person is required to be approved for the position by the UK's Financial Services Authority. However, the oversight of the Internal Audit function remains firmly with Bradford & Bingley. The Head of Internal Audit reports through to the Chairman of the Audit, Risk and Compliance Committee and to the Managing Director.

The role of Internal Audit is to provide independent and objective assurance that the process for identifying, evaluating and managing key risks faced by the Group is appropriate and effectively applied.

Risk categorisation

The Group categorises risk under the following headings:

Credit risk

Credit risk is the potential financial loss caused by a retail customer or wholesale counterparty failing to meet their obligations to the Group as they become due. As the Group is no longer making any material loans, absolute levels of credit risk is expected to decline as the current assets mature.

Credit risk is the largest risk the Group faces and the monitoring of the recoverability of loans and amounts due from counterparties is inherent across most of the Group's activities. The Group is firmly committed to the management of credit risk in both its lending and wholesale books. The Group employs credit behaviour scoring and fraud detection techniques to support loss minimising strategies. As no new lending is now being undertaken, the focus of credit risk activities is on:

- A proactive approach to the identification and control of loan impairment in the Residential Lending Credit Risk and Credit Control areas;
- Fraud and professional negligence investigation; and
- The use of credit behaviour scoring and other techniques to monitor the risk profile of the existing book.

Adverse changes in the credit quality of borrowers or a general deterioration in UK economic conditions could affect the recoverability and value of the Group's assets and therefore its financial performance. As credit risk is the main risk to the Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within the Group's risk appetite. To a lesser degree, the Group is exposed to other forms of credit risk such as those arising from settlement activities where the risk is a consequence of a transaction, rather than a driver of it.

The extent of credit risk in the Group's balance sheet is shown by the following table of provisions for mark-downs on impaired assets:

	Balance Sheet value	**Provision**	Balance Sheet value	Provision
	2009	**2009**	2008	2008
	£m	**£m**	£m	£m
Residential mortgages	**38,167.3**	**884.1**	40,967.3	467.7
Commercial mortgages	**818.9**	**52.2**	858.7	30.7
Treasury assets	**6,321.2**	**392.9**	7,474.3	353.7

Pages 20 to 23 form an integral part of the audited Financial Statements

Risk management and control continued

The Group's ability to influence the structure of its credit risk profile, in the absence of asset sales, is largely restricted to the degree of control which it has over loan redemptions and credit collections activity. With the composition of the loan portfolio largely fixed in the short-to-medium term, the Group's credit risk profile is now determined by the credit quality of the existing portfolio alone. Changes in credit quality will arise either from changes in the underlying economic environment and/or our assumptions about the future trends in the economy or from changes in the specific characteristics of individual loans.

It is the Group's policy to monitor the profile of its lending exposure on a quarterly basis. Changes in the risk profile are reported as part of the Group's quarterly stress tests. The stress tests forecast losses, impairment and capital requirements at a portfolio and product level over a 10 year horizon given a range of economic scenarios.

The Board receives a monthly update on changes in the key drivers of the lending credit risk profile, with more detailed information on the factors underlying these key drivers being reported monthly to the RC.

The Group also holds a structured finance portfolio that primarily consists of investments in asset backed securities ('ABS'). The credit risk is determined by the quality of the underlying securitised assets and this drives the market demand for these investments. Credit limits have been set for the structured finance portfolios. No new structured finance investments were made in 2009.

Lending policies and limits are reviewed and approved annually by the Board. The RC ensures that any exposure to credit risk remains within overall risk exposure levels as agreed by the Board. Authorised credit risk limits for wholesale money market counterparties reflect the size, depth and quality of the counterparty's capital base and, where published, credit ratings assigned by the major credit rating agencies.

Market risk

Market risk is the potential adverse change in Group income or Group net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

Interest rate risk

The most significant form of market risk to which the Group is exposed is interest rate risk. This arises from the interest rate characteristics of its assets and liabilities. The principal exposure is caused by the extent of variable rate mortgages funded by fixed rate liabilities (£15.4bn) and libor linked liabilities (£1.5bn). A secondary exposure is caused by the mismatches between the repricing dates of the floating rate assets and liabilities. As the mortgage book declines the extent of interest rate risk will decline.

Group Treasury is responsible for managing this exposure within the risk exposure limits set out in the Treasury Policy Framework and the Interest Rate and Foreign Exchange Risk Policy, as approved by the Board. These policies set out the nature of the market risks that may be taken, along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk.

It is ALCO's responsibility to recommend strategies to the RC for managing market risk exposures and to ensure that Group Treasury implements the strategies within the Group's approved Board policy limits.

The Group's results are also affected by the change in market value of interest rate derivatives that do not meet the hedge accounting requirements of IAS 39 (as set out in note 41g). In 2009, the loss to the Income Statement was £79.1m, (2008: £247.1m gain) and the nominal value of such derivatives at 31 December 2009 was £1.1bn (2008 £7.4bn).

The Group assesses its exposure to interest rate movements using a number of techniques. There are, however, two principal methods:

- A static framework that considers the impact on the current Balance Sheet of an immediate movement of interest rates; and
- A dynamic modelling framework that considers the projected change to both the Balance Sheet and mortgage product rates over the following year under various interest rate scenarios.

The results of these analyses are presented to ALCO monthly, in order to identify, measure and manage the Group's exposure to interest rate risk.

Limits are placed on the sensitivity of the Group Balance Sheet to movements in interest rates. Exposures are reviewed by senior management and the Board with a frequency between daily and monthly, related to the granularity of the position. For example, the overall Group Balance Sheet interest rate risk exposure position is monitored monthly whilst specific portfolios within the Balance Sheet are reviewed on a daily basis. This reflects the dynamics and materiality of the various portfolios.

Pages 20 to 23 form an integral part of the audited Financial Statements

Risk management and control continued

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps which are over-the-counter arrangements with highly rated banking counterparties. The Group also takes advantage of the natural offset of its asset and liability positions to minimise the costs and risks of arranging transactions external to the Group.

Liquidity risk
Liquidity risk management within the Group considers both the overall Balance Sheet structure and projected daily liquidity requirements, measuring the combined effect of asset and liability maturity mismatches across the Group, undrawn commitments and other contingent obligations. The day-to-day management of liquidity is the responsibility of Group Treasury.

The Liquidity risk management policies are set out in the Liquidity & Wholesale Funding Policy and the Liquidity Contingency Policy; these policies are approved by the Board. The policies consider the quality of liquidity assets as well as projected funding requirements. The Group obtains any sterling funds required from a sterling denominated facility provided by HM Treasury. This facility enables sufficient sterling liquidity to be available even in extreme circumstances. The Group remains dependent on the markets, as it principally generates liquidity in foreign currencies by converting funds from sterling with foreign exchange swap transactions in the financial markets. Thus, whilst liquidity risk in sterling is very low, that in foreign currencies remains.

The impact of liquidity risk is monitored by liquidity stress tests, the results of which are considered by ALCO and reported to the Board.

Foreign exchange risk
Prior to nationalisation, the Group raised and invested funds in currencies other than sterling. Accordingly, foreign exchange risk arises from activities related to the Group managing borrowing costs and investment returns (the underlying asset and liability balances are set out in note 42e). As with interest rate risk, Group Treasury is responsible for managing this exposure within the limits set out in the Group's policies.

The Group does not actively seek foreign exchange exposures and any that arise naturally from its net interest income streams denominated in the foreign currencies are subject to limits set out in the Interest Rate and Foreign Exchange Risk Policy that is approved by ALCO and the Board. The Group will remain exposed to foreign exchange risk until all assets and liabilities denominated in foreign currencies have matured or been sold.

Foreign currency exposure is measured daily by Group Finance taking into consideration all non-sterling assets and liabilities. This exposure position is broken down by individual foreign currency and the net exposure circulated daily to senior managers with an overall summary position provided to ALCO on a monthly basis.

Residual foreign exchange risk is managed through the use of foreign exchange contracts.

Operational risk
Operational risk is the risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, whether through the actions of people or from external events. Operational risk will remain an important part of the Group's risk profile throughout the wind-down process.

Major sources of operational risk include, amongst others:

- Outsourcing of operations;
- Dependence on key suppliers;
- IT security;
- Internal and external fraud;
- Implementation of strategic change;
- Regulatory non-compliance; and
- Process errors and external threats such as the loss of a critical site.

The Group's business areas manage this risk through appropriate controls and loss mitigation actions, including insurance. These actions include a balance of policies, appropriate procedures and internal controls to ensure compliance with laws and regulations. At a detailed level, risk and control assurance is facilitated by Group Risk, in conjunction with line managers, on the risks and control effectiveness within their areas of responsibility.

In addition, specialist support functions provide expertise in risk areas such as information security, health and safety, compliance, fraud management, security and business continuity management.

A process is in place for the recognition, capture, assessment and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events.

The Group calculates its capital requirement for Operational Risk using the Basel II Standardised Approach.

Directors' remuneration report

This section of the annual report outlines the role and responsibilities of the Company's Remuneration Committee, and gives details of the remuneration for the most senior employees in the company.

Main changes during the year

During 2009 Bradford & Bingley made a number of changes to executive remuneration in recognition of the environment in which it is working. These were introduced as a result of nationalisation, changes to legislation and discussions with HM Treasury and UKFI. These changes are summarised as follows:

- A number of changes to policies and practice have been implemented following a review of the FSA Code of Practice on Remuneration (the 'Code') and HM Treasury's guidelines following the G20 summit. This has ensured that the Company has considered and reviewed its position to ensure compliance;
- Closure of the final salary pension plan, given the significant cost of keeping this open; and
- Introduction of revised performance enhancement and retention arrangements, to ensure retention of key staff, given the business is in wind-down.

These are described in more detail below.

FSA Code of Practice on Remuneration

In 2009 Bradford & Bingley undertook a full review of all remuneration-related policies and procedures to ensure that it complies with the Code. The business will continue to ensure that the Code underpins all work undertaken in these areas.

The key changes made to comply with the Code which were agreed by the Remuneration Committee and, where appropriate, UKFI, Risk and Compliance are as follows:

- Remuneration and bonus scheme policies have been communicated throughout the business;
- Mandatory training for line managers with responsibility for remuneration-related decisions;
- A review of experience of Remuneration Committee members to ensure they have relevant and appropriate risk-management experience;
- An annual report from the Risk Director to the Remuneration Committee on the overall risk profile of the Company and the effectiveness of the risk management policies in place;
- An annual briefing from PricewaterhouseCoopers LLP, the advisers to the Remuneration Committee on governance and regulatory developments affecting remuneration committees to ensure it is kept informed of changes and current thinking; and
- The Risk Director will also be consulted before the Company proposes to the Remuneration Committee any changes to the remuneration for employees who fall under Principle 8 of the Code.

Closure of final salary pension plan to future accrual

Following extensive consultation with Advance, the employee union recognised by Bradford & Bingley, the final salary based Bradford & Bingley Staff Pension Scheme closed to future accrual with effect from 31 December 2009. Colleagues' Final Pensionable Salary will be calculated as from this date.

Introduction of new bonus arrangement - Performance Enhancement & Retention Scheme

No long-term incentive schemes were operated in 2009. Senior employees participate in the annual bonus scheme which has been aligned to targets derived directly from the Business Plan and individual payments are also linked to achievement of personal objectives. All bonus payments over £2,000 and all bonuses for employees earning £39,000 per annum or more are deferred and are payable in three equal instalments over three years. Where bonus payments have been deferred, they will be paid, provided that there are no material adverse issues regarding personal and/or business performance which, in the opinion of the Remuneration Committee, were not evident at the time of making the award.

The Remuneration Committee

The primary objectives of the Remuneration Committee for 2009 are listed below, and are largely unchanged from those in place at the end of 2008.

- To recommend to the Board the remuneration arrangements for the executive directors and senior executives;
- To review the Managing Director's proposals and to recommend to the Board the remuneration of the next tier of management;
- To review the Managing Director's proposals and recommend to the Board the remuneration policies (including any annual increase) for staff in general; and
- To draft the Remuneration Report for the Board's approval and inclusion in the Annual report and accounts.

The scope of the Committee is to focus on remuneration policy across all levels of the organisation and the full Terms of Reference are available on the corporate website.

Directors' remuneration report continued

The Remuneration Committee is composed entirely of non-executive directors, as detailed in the table below. In addition, Richard Pym was invited to attend the Remuneration Committee in the period January to June when he was Executive Chairman, before joining the Committee on 1 July 2009 when he became Non-executive Chairman.

Table 1 - Remuneration Committee membership

Louise Patten (Chairman)	All Year
Michael Buckley	All Year
Richard Pym	From 1 July 2009

During the year the Managing Director, interim Operations & Services Director and Head of HR & Communications were invited to attend Remuneration Committee meetings for those items other than their own arrangements and to provide advice. UKFI representatives were also invited to attend the Committee to represent the interests of the shareholder.

The Remuneration Committee met eight times between 1 January and 31 December 2009 and, amongst other items, considered:

- The Group-wide annual bonus payments for 2008;
- The 2009 salary review principles;
- The 2009 annual bonus scheme;
- The FSA Code of Practice on Remuneration and associated submissions to the FSA;
- A revised Reward Strategy, Reward Policy and Bonus & Incentive Schemes Policy;
- Salary benchmarking for the senior team;
- A review of the benefit provision across the Group; and
- The 2010 salary review proposal and bonus schemes.

Advisers

PricewaterhouseCoopers LLP continue to be appointed as independent advisers to the Remuneration Committee and provided external advice on market data, structure and design of incentives across all levels of the organisation and a review of compliance with the FSA Code of Practice on Remuneration.

Remuneration policy

The key objective of the Remuneration Policy is to support the achievement of our overall business strategy by establishing an objective, consistent and fair reward system which provides a competitive, yet cost-effective, salary and benefits package to all employees that reflects:

- The scope and accountabilities of the job;
- The knowledge, skills and experience required for the role;
- The contribution an employee makes;
- The employee's performance in the role;
- The employee's potential for the future; and
- The promotion of effective risk management.

The business launched a replacement Incentive Schemes Policy in 2009, of which the key objectives are:

- To support the achievement of our overall business strategy by establishing objective, consistent and fair incentive and bonus schemes which:
  - support the achievement of individual, departmental and Company objectives
  - are competitive and cost effective
  - are measurable and linked to stretching objectives
  - are transparent, realistic, clearly and appropriately communicated
  - do not support or encourage behaviours which are outside the company's risk appetite and promote effective risk management;
- To support the consistent application and management of bonus and incentive schemes across the Company; and
- To ensure all incentive and bonus schemes introduced across the Company are in keeping with the key principles outlined in the Reward policy.

Directors' remuneration report continued

Termination arrangements for former Executive Directors
As stated in the 2008 report, Mark Stevens, who was employed by the Company under a service contract dated 1 May 2007, resigned as a Director on 4 September 2008. In accordance with his terms of employment, he continued to receive his basic salary and benefits during the period of his notice up until 28 February 2009.

Both Chris Willford and Roger Hattam stepped down from the Board on 30 June 2009. In line with their contracts, they will receive salary, employer pension contributions and benefits for their contractual notice periods which end on 31 May 2010. They were not entitled to any bonus payment for 2008, and will not be entitled to any for 2009. They are not entitled to and will not receive any redundancy payment.

Appointment of Managing Director
Richard Banks was appointed Managing Director on 27 April 2009, was appointed as Director of Bradford & Bingley plc on 1 May 2009 and took over executive responsibility from Richard Pym from 1 July 2009. A specific remuneration package was determined by the Board and the Remuneration Committee on his initial appointment, which for 2009 consisted of base salary of £250,000 plus benefits and a maximum annual bonus of £30,000 which is subject to the same deferral and clawback as outlined earlier in this report.

Components of Executive Remuneration
Following nationalisation, the remuneration framework is structured to place more importance on fixed pay, and short term bonus and long term incentive opportunities have both been reduced. For instance, base salary now represents 81% of the total package, whereas previously this was around 20%.

The remuneration elements for 2009 are provided below:

- **Basic salary**
  Basic salary is the only element of pay that pension is calculated on. The Executive Directors' salaries were frozen for 2009 and will next be reviewed in early 2010.
- **Annual bonus arrangements – Performance Enhancement and Retention Scheme**
  Richard Banks, Managing Director, falls into the standard bonus scheme as outlined earlier in this report and his bonus earnings are capped at £30,000 in 2009, subject to the same deferral and clawback arrangements as outlined previously. However, Richard Banks has voluntarily deferred the first £10,000 instalment of the 2009 bonus which would have been payable in 2010, and this will be reviewed by the Remuneration Committee after 12 months. Therefore, no Director received a cash bonus in respect of 2009, that would be payable in 2010. There are no long term incentives schemes.
- **Employee share scheme**
  All share schemes were extinguished upon nationalisation, however, the Company's share savings schemes remain as a cash investment vehicle.
- **Pensions and other benefits**
  Richard Banks and Chris Willford receive an annual supplement of 30% of basic salary in lieu of any company pension benefit. This payment will cease for Chris Willford at the end of his contractual notice period which is 31 May 2010.

  Roger Hattam receives a 30% salary supplement in respect of his basic salary above the earnings cap. These payments will cease at the end of his contractual notice period which is 31 May 2010. He was an active member of the final salary based Staff Pension Scheme for basic salary up to the earnings cap, applied by the scheme (currently £123,600 per annum).

  In line with typical market practice, other executive benefits are provided to Executive Directors in the form of a company car allowance, housing allowance, private medical insurance, life assurance, permanent disability insurance and accident insurance. The Directors' emoluments table is set out on page 28.

  As outlined earlier in this report, the final-salary pension scheme closed with effect from 31 December 2009.

Bank Payroll Tax
In 2009, £37,000 bank payroll tax was provided for in respect of bonus payments in excess of the £25,000 threshold. The total value of these bonuses was £274,000 and related to seven employees and one Director of the Group. Bonus payments were determined by the achievement of all the Group's financial targets in 2009 and an assessment of each individual's personal performance. All bonuses for the Group are subject to deferral and clawback arrangements, as outlined earlier.

Directors' remuneration report continued

Service agreements

Group policy is to employ Executive Directors on one-year rolling contracts. It is not the Group's policy to make non-contractual payments to Executive Directors on termination of their service agreement and no such payments were made in 2009. Executive Directors are entitled to pay in lieu of notice, should their contract be terminated, and statutory redundancy only.

Table 2 - Executive Director service contract

	Date of Service Contract	Company's notice period	Director's notice period
Richard Banks	27/04/2009	12 months	6 months

Table 3 - Non-executive Directors' terms of appointment

	Date of Appointment Letter	Company's notice period	Director's notice period
Michael Buckley	26/07/2007	Nil	Nil
Louise Patten	17/12/2003	Nil	Nil
Richard Pym*	01/07/2009	1 day	1 month

Table 4 - Former Executive Directors who served during 2009

	Date of Service Contract	Company's notice period	Director's notice period
Richard Pym**	18/08/2008 - 01/04/2009	12 months 1 day	12 months 1 day
Chris Willford	30/09/2005	12 months	12 months
Roger Hattam	01/05/2007	12 months	6 months

* Richard Pym became Non-executive Chairman on 1 July 2009 following the appointment of Richard Banks as Managing Director and his salary was reduced to £187,500 per annum.

** As outlined in the 2008 report, on 20 February 2009 Richard Pym announced that he had decided to make three voluntary changes to his contract with effect from 1 April 2009:

1. Reduce his salary from £750,000 to £350,000.
2. Waive his entitlement to his contractual cash bonus of £187,500 due for the period from 1 January 2009 to 30 June 2009 together with any further bonus entitlement in 2009.
3. Amend his contract from a minimum two year period to a notice period of one day. His required notice period to the Company was increased to one month with effect from 1 July 2009 following concerns expressed by the FSA at the short notice period of one day.

Non-executive Chairman and Non-executive Directors' fees

Fee levels for the Non-executive Directors were determined by a committee, which had a membership of the Managing Director, interim Operations & Services Director and Finance Director. Following independent review in 2008, the fees were not increased, and were not increased in 2009. Non-executive Directors do not participate in any incentive arrangements, do not have service contracts and do not receive any other benefits.

Directors' remuneration report continued

Non-executive directorships

Executive Directors who hold non-executive directorships in other companies are permitted to retain their earnings from these posts.

During the time that he was an Executive at Bradford & Bingley, up to 30 June 2009, Richard Pym received £44,500 for his role as Non-executive Director of Old Mutual plc and £37,500 for his role as Chairman of BrightHouse Group Ltd.

Richard Banks holds two non-executive directorships. The first with Liverpool Compact Education Business Partnership for which he received no fees. The second is with ICICI Bank UK PLC, for which he received fees of £4,166.

In 2009 Chris Willford received Non-executive Director fees of £20,175 from the Personal Accounts Delivery Authority, a position he was appointed to in May 2008. Up to the point he resigned as a Director of Bradford & Bingley, he had received £10,025 in 2009.

Compliance

This report sets out the framework of remuneration policies and the tables show how this framework is applied to each individual director in the year under review.

Table 5 - Directors' emoluments for the year ended 31 December 2009

	Basic salary/ fees	Non-Cash Benefits	Allowances	Payment in lieu of pension	Bonus	**Total emoluments 2009**	Total emoluments 2008
Executive Directors	£	£	£	£	£	**£**	£
Richard Pym	272,414	399	6,000	82,500	-	**361,313**	506,670
Richard Banks	171,456	676	8,230	51,437	30,000*	**261,799**	-
Chris Willford	708,333	1,414	24,050	212,500	-	**946,297**	675,626
Roger Hattam	517,083	1,414	14,450	118,495	-	**651,442**	450,806
Total	**1,669,286**	**3,903**	**52,730**	**464,932**	**30,000**	**2,220,851**	1,633,102
Non-executive Directors							
Michael Buckley	70,000	-	-	-	-	**70,000**	51,667
Louise Patten	58,000	-	-	-	-	**58,000**	58,000
Richard Pym	93,600	-	-	-	-	**93,600**	-
Total	**221,600**	**-**	**-**	**-**	**-**	**221,600**	109,667
Total Directors' Emoluments	**1,890,886**	**3,903**	**52,730**	**464,932**	**30,000**	**2,442,451**	1,742,769

* Payment is subject to the same rules around deferral and clawback as outlined earlier in the report. However, Richard Banks has voluntarily deferred his entitlement to the first £10,000 instalment of the 2009 bonus and any future payment will be entirely at the discretion of the Remuneration Committee.

Directors' remuneration report continued

As outlined earlier in the report, Chris Willford and Roger Hattam's notice expires on 31 May 2010. In accordance with their terms of employment, they continued to receive basic salary and benefits during the period of notice, unless alternative employment had been secured prior to this date, at which point payment would cease. The whole of these amounts are included in the table above.

Benefits received by Directors consist principally of the provision of a company car, health benefits and housing allowance. An amount in lieu of pension entitlement is shown, in the table above.

Director's accrued pension entitlements

Executive	Age at 31 Dec 2009	Accrued pension entitlement 31 Dec 2009	Change in accrued benefit during 2009	Transfer value at 31 Dec 2009	Transfer value at 31 Dec 2008	Change in transfer value during 2009	Transfer value of increase in accrued pension 31 Dec 2009
		£'000	£'000	£'000	£'000	£'000	£'000
Roger Hattam	41	37	4	495	393	96	36

Pension disclosures are reported above in accordance with the Directors' Remuneration Report Regulations 2002.

The transfer values reported above reflect the capital value of the relevant pension assessed under market conditions at the end of 2009 and 2008 respectively. The change in transfer value during 2009 is reduced by the Director's contributions to the scheme during 2009. The inflation figure used is 0.3%.

The increase in accrued pension entitlement represents the change in the annual pension to which each director is entitled as a result of changes in pensionable earnings, excluding inflation, and increases in pensionable service. Benefits have been valued at a retirement age of 60, with an adjustment made to the post 1 April 2005 benefits to reflect the fact that these are reduced if paid before age 65.

In 2009, pension payments due to former Bradford & Bingley Building Society Directors, paid directly by Bradford & Bingley plc and not connected to the Bradford & Bingley plc Staff Pension Scheme, amounted to £23,073 (2008: £157,248).

Corporate social responsibility

Bradford & Bingley's aim is to conduct its business in a socially responsible manner in respect of employees, customers, local communities and the environment.

Workplace and employees

Bradford & Bingley's employment practices reflect international and national standards covering areas such as minimum working age, working hours, health and safety and discrimination.

The Group promotes diversity and equality across all aspects of working life and believes it is important to share best practice and success.

Opportunities are provided for all staff to develop their skills and knowledge.

The Group recognises that the health and well-being of employees is vital to the business. Comprehensive policies have been agreed with Advance, the recognised staff union, on Flexible Working and Fair Treatment at Work.

Customers

Bradford & Bingley has around 260,000 mortgage customers (2008: 300,000) to serve and manage and endeavours to treat each customer as an individual, with openness, honesty and integrity. The Group complies with the FSA's formal framework for Treating Customers Fairly.

Bradford & Bingley works closely with those customers experiencing payment difficulties to exhaust all reasonable efforts before commencing repossession proceedings, which is viewed as a last resort.

Community

During 2009, Bradford & Bingley continued its investment into the community especially in Bradford and the Aire Valley, where the majority of our employees live and work.

In 2009, Bradford & Bingley focused on two areas of local community support, preventing and alleviating the causes of homelessness and promoting personal finance education:

- Business Action on Homelessness ('BAOH') is the flagship programme of Business in the Community. BAOH is a unique partnership between leading businesses, homelessness agencies and the government, which aims to help homeless people to find employment and achieve independent living; and
- The UK Career Academy Foundation, which leads and supports a national movement of employers, schools and colleges, working to raise the aspirations of 16 to 19 year-olds who are considering a career in finance.

Employees at our offices in Bingley and Crossflatts voted for Sue Ryder Care at Manorlands to be Bradford & Bingley's charity of the year in 2009 and fundraising activities helped to raise over £3,500 for the charity. The Community Action Team, which consists of volunteers from across all functions of the business, assisted five other local charities and community groups with funding and support.

Bradford & Bingley supports other fundraising activities by matching the first £250 of funds raised per employee and by matching employee donations through a payroll-giving programme. During the year, Bradford & Bingley matched employee fundraising to the total of £5,411.

The environment

During 2009, Bradford & Bingley sought to continue to improve its environmental performance through a number of initiatives. In order to reduce the number of single occupancy vehicles travelling to and from its West Yorkshire offices, the Group provided a shuttle service between its two Aire Valley sites and promoted car sharing by offering staff guaranteed parking spaces.

Bradford & Bingley is a member of the West Yorkshire Metro Travel Network and promotes its commitment to environmentally friendly travel by offering employees discounted annual travel tickets for the West Yorkshire area.

The main waste streams produced by Bradford & Bingley consist of general office waste, confidential paper waste and IT equipment.

There are procedures in place to recycle paper, plastic, aluminium, toners, metals, IT components and mobile phones.

Corporate social responsibility in 2010

Since the Transfer, Bradford & Bingley is primarily based in Bingley, West Yorkshire. The 2010 programme will be focused entirely on supporting the Aire Valley community in which the majority of employees live and work. The Community Action Team will continue to consider requests for funds from local community groups and charities and will continue to support local schools and charities with volunteering initiatives.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent company Financial Statements for each financial year. Under that law they have elected to prepare both the Group and the Parent company Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent company and of their profit or loss for that period.

In preparing each of the Group and Parent company Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRS as adopted by the EU; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Other matters

Directors' interests
Following the Transfer on 29 September 2008, no Director has any interests in shares in the Company.

No Director had any material interest during the year in any contract of significance to the Group's business.

Principal activities
The principal activities of the Group are explained in the Managing Director's review on page 4.

Review of business, future developments, principal risks and uncertainties
A review of the business, future developments, principal risks and uncertainties, is set out in the Managing Director's review on page 4.

Property, plant and equipment
Land and buildings, which are included in the Balance Sheet at cost less accumulated depreciation amounted to £12.1m at 31 December 2009. In the Directors' opinion, based on valuations carried out by the Group's external qualified Chartered Surveyors, the total market value of those assets at that date was not significantly different to the Balance Sheet amount.

Dividends
The Directors do not propose the payment of any dividend in respect of the year ended 31 December 2009.

Shares
On 29 September 2008, pursuant to the terms of The Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008, all shares were transferred to the Treasury Solicitor as nominee for HM Treasury.

There has been no change in the issued share capital since the Company was taken into public ownership and the number of ordinary shares of 25 pence each in issue throughout 2009 and as at 31 December 2009 was 1,445,344.

The Company has one class of shares: ordinary shares of 25 pence each, ranking equally in respect of rights attaching to voting, dividends and in the event of winding up. Further details concerning the rights and obligations attaching to the shares can be found in the Company's Articles of Association.

Major Shareholders
As at the date of this Report, all shares are held by the Treasury Solicitor as nominee for HM Treasury.

Compensation Scheme Order
In June 2009, in accordance with the Bradford & Bingley plc Compensation Scheme Order 2008, HM Treasury appointed an independent valuer to assess what compensation is due, if any, to former shareholders and other interested parties following the Transfer. Further details about the Valuer can be found at his website, www.bandbvaluer.org.uk

Employee involvement
During the year we have continued to maintain and develop policies and approaches which enable:

- Sharing information with employees;
- Consultation with employees and decisions affecting employees' interests;
- Involving employees in defining our new company values;
- Encouraging employee involvement in the Company's performance; and
- Achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company.

Corporate Social Responsibility
Bradford & Bingley is committed to carrying out its activities in a socially responsible manner in respect of the environment, employees (including equal opportunities, employee participation and staff incentives), customers, local communities and other stakeholders.

Other matters continued

Charitable and political donations
During 2009 the Group allocated £0.3m (2008: £1.4m) to its programme of community investment, including £0.1m paid to charitable organisations (2008: £0.5m).

No contributions were made for political purposes in 2009. The Group does not make any payments that might be deemed to be political in nature.

Creditor payment policy
It is the policy of the Company to pay creditor invoices within 30 days of the invoice date. The Company is willing to consider requests by small suppliers for a shorter settlement period. The average number of creditor days in 2009 was 12 days (2008: 14 days).

Post balance sheet events
Details of post Balance Sheet events are shown in note 45 to the Accounts.

Directors indemnities
The Company's Articles of Association provide the power to indemnify any Director against liabilities incurred as a result of their office.

The Company has also provided each Director with a Deed of Indemnity indemnifying them to the fullest extent permitted by law against all losses suffered or incurred in respect of acts and omissions arising as a result of holding office. The indemnities also extend to the reimbursement of each Director with the costs of defending all claims, actions and proceedings including regulatory investigation arising out of or connected with the exercise of, or failure to exercise, any of the Director's powers, duties or responsibilities as an officer, director, trustee, agent or employee of the Company or any Group Company. Reimbursement is subject to the Director's obligation to repay the Company in accordance with the provisions of the Companies Act 2006. The payment obligations of the Company under each Deed of Indemnity are backed by a specific guarantee in favour of the Director entered into between the Company and HM Treasury.

The Company has also arranged Director's and Officer's Insurance on behalf of the Directors in accordance with the provisions of the Companies Act 2006.

Annual General Meeting
It is proposed that the AGM of the company will be held on 27 April 2010.

Auditor
A resolution to re-appoint KPMG Audit Plc will be put to the Shareholder at the forthcoming AGM.

Disclosure of information to the Auditor
As at the date of this report, each person who is a Director confirms that:
- So far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken such steps as he or she ought to have taken as a Director in order to make him or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 (2) of the Companies Act 2006.

Paul Hopkinson
Company Secretary, on behalf of the Board
18 March 2010

The Accounts

Independent Auditor's report to the members of Bradford & Bingley plc

We have audited the Group and Parent company Financial Statements (the 'Financial Statements') of Bradford & Bingley plc for the year ended 31 December 2009 set out on pages 36 to 94. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU and, as regards the Parent company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 31, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

Scope of the audit for the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on Financial Statements

In our opinion:

- The Financial Statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- The Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the EU;
- The Parent company Financial Statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent company Financial Statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

J L Ellacott (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

18 March 2010

Consolidated Income Statement

For the year ended 31 December

	Note	2009 £m	2008 £m
Interest receivable and similar income		**1,880.0**	3,121.8
Interest expense and similar charges		**(1,267.6)**	(2,384.4)
Net interest income	3	**612.4**	737.4
Fee and commission income		**52.6**	63.3
Realised losses on financial instruments	41g	**(8.5)**	(120.3)
Fair value movements	41g	**(79.1)**	183.0
Hedge ineffectiveness	41g	**44.1**	18.5
Other operating income		**1.1**	4.8
Net operating income		**622.6**	886.7
Administrative expenses:			
- Ongoing	4	**(137.1)**	(253.2)
- Other net expenses	4	**-**	(23.7)
FSCS levy	5	**(7.9)**	-
Loan impairment loss	11	**(593.7)**	(507.7)
Investment impairment loss	15	**(93.3)**	(191.6)
Defined benefit pension scheme curtailment	30d	**13.4**	-
Gain on sale of assets and liabilities	2	**-**	216.3
Non-operating income		**-**	7.5
(Loss)/profit before taxation		**(196.0)**	134.3
Taxation	7	**97.7**	(116.1)
(Loss)/profit for the financial year		**(98.3)**	18.2

The notes on pages 42 to 94 form part of these Financial Statements.

The Company's profit after tax for the financial year was £2.3m (2008: £232.9m profit). As permitted by Section 408 of the Companies Act 2006, the Company's Income Statement has not been presented in these Financial Statements.

The Group's business and operations comprise one single activity, principally within the United Kingdom. The results above arise from continuing activities and are attributable to the equity shareholder.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Gross of tax	Tax	Net of tax
	£m	£m	£m
Loss for the financial year	**(196.0)**	**97.7**	**(98.3)**
Available-for-sale instruments:			
- Net gains recognised in equity during the year	**228.9**	**64.4**	**293.3**
- Amounts transferred from equity and recognised in profit during the year	**10.5**	**(2.9)**	**7.6**
Cash flow hedges:			
- Net gains/(losses) recognised in equity during the year	**154.4**	**(43.3)**	**111.1**
- Amounts transferred to profit and loss for the year	**(3.1)**	**0.9**	**(2.2)**
Actuarial losses on post-retirement benefit obligations	**(105.0)**	**29.5**	**(75.5)**
Other comprehensive income	**285.7**	**48.6**	**334.3**
Total comprehensive income for the financial year	**89.7**	**146.3**	**236.0**

For the year ended 31 December 2008

	Gross of tax	Tax	Net of tax
	£m	£m	£m
Profit for the financial year	134.3	(116.1)	18.2
Available-for-sale instruments:			
- Net losses recognised in equity during the year	(312.7)	(38.5)	(351.2)
- Amounts transferred from equity and recognised in profit during the year	90.9	(25.9)	65.0
Cash flow hedges:			
- Net (losses)/gains recognised in equity during the year	(116.5)	32.6	(83.9)
- Amounts transferred to profit and loss for the year	(5.9)	1.7	(4.2)
Actuarial losses on post-retirement benefit obligations	(17.8)	5.0	(12.8)
Other comprehensive income	(362.0)	(25.1)	(387.1)
Total comprehensive income for the financial year	(227.7)	(141.2)	(368.9)

Balance Sheets

At 31 December

		Group		Company	
		2009	2008	**2009**	2008
	Note	**£m**	£m	**£m**	£m
Assets					
Cash and balances at central banks		**323.0**	100.4	**316.6**	100.4
Loans and advances to banks	9	**3,442.3**	3,349.2	**1,436.2**	1,380.8
Loans and advances to customers	10	**38,986.2**	41,826.0	**54,343.7**	58,622.1
Fair value adjustments on portfolio hedging	41g	**294.2**	561.3	**294.2**	561.3
Debt securities	14	**2,555.9**	4,024.7	**10,269.1**	12,273.4
Derivative financial instruments	41g	**3,660.6**	6,022.9	**902.3**	1,734.9
Prepayments and accrued income	16	**11.5**	18.3	**6.5**	8.8
Investments in Group undertakings	17	**-**	-	**1,037.2**	1,244.7
Other assets	18	**-**	2.7	**-**	1.4
Deferred tax assets	19	**105.9**	-	**305.7**	183.1
Property, plant and equipment	20	**15.0**	17.1	**13.8**	13.3
Total assets		**49,394.6**	55,922.6	**68,925.3**	76,124.2
Liabilities					
Deposits by banks	22	**2,809.5**	9,318.5	**1,092.6**	8,143.9
Other deposits	23	**457.5**	828.1	**28,257.4**	30,285.4
HM Treasury Working Capital Facility	24	**8,537.8**	2,275.7	**8,537.8**	2,275.7
Statutory Debt	25	**18,416.2**	18,413.9	**18,416.2**	18,413.9
Derivative financial instruments	41g	**665.6**	1,230.2	**725.2**	1,309.4
Debt securities in issue	26	**15,133.6**	20,666.3	**9,111.7**	13,364.0
Other liabilities	28	**88.2**	80.7	**80.4**	66.2
Accruals and deferred income	29	**119.3**	83.6	**119.8**	84.8
Current tax liabilities		**67.8**	66.7	**48.7**	49.3
Deferred tax liabilities	19	**-**	90.9	**-**	-
Post-retirement benefit obligations	30d	**97.7**	9.2	**97.7**	9.2
Provisions	31	**52.8**	83.6	**52.8**	83.6
Subordinated liabilities	32	**1,309.2**	1,348.7	**1,629.5**	1,691.6
Other capital instruments	33	**245.3**	268.4	**-**	-
Total liabilities		**48,000.5**	54,764.5	**68,169.8**	75,777.0
Equity					
Issued capital and reserves attributable to equity holder of the parent:					
- Share capital	34	**361.3**	361.3	**361.3**	361.3
- Share premium reserve		**198.9**	198.9	**198.9**	198.9
- Capital redemption reserve		**29.2**	29.2	**29.2**	29.2
- Available-for-sale reserve		**(47.2)**	(348.1)	**(715.3)**	(1,087.9)
- Cash flow hedge reserve		**(39.6)**	(148.5)	**(39.6)**	(148.5)
- Retained earnings		**891.5**	1,065.3	**921.0**	994.2
Share capital and reserves		**1,394.1**	1,158.1	**755.5**	347.2
Total equity and liabilities		**49,394.6**	55,922.6	**68,925.3**	76,124.2

The notes on pages 42 to 94 form part of these Financial Statements.
The Financial Statements were approved by the Board of Directors and authorised for issue on 18 March 2010 and signed on its behalf by:

Richard Pym
Chairman

Richard Banks
Managing Director

Statements of Changes in Equity

For the year ended 31 December

Group	Share capital	Share premium reserve	Capital redemption reserve	Available-for-sale reserve	Cash flow hedge reserve	Retained earnings	Total capital and reserves
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2009	**361.3**	**198.9**	**29.2**	**(348.1)**	**(148.5)**	**1,065.3**	**1,158.1**
Net change in available-for-sale instruments	-	-	-	**300.9**	-	-	**300.9**
Net change in cash flow hedges	-	-	-	-	**108.9**	-	**108.9**
Actuarial losses on post-retirement benefit obligations	-	-	-	-	-	**(75.5)**	**(75.5)**
Net gains/(losses) not recognised in the Income Statement	-	-	-	**300.9**	**108.9**	**(75.5)**	**334.3**
Loss for the financial year	-	-	-	-	-	**(98.3)**	**(98.3)**
Total comprehensive income/(expense)	-	-	-	**300.9**	**108.9**	**(173.8)**	**236.0**
At 31 December 2009	**361.3**	**198.9**	**29.2**	**(47.2)**	**(39.6)**	**891.5**	**1,394.1**

Group	Share capital	Share premium reserve	Capital redemption reserve	Available-for-sale reserve	Cash flow hedge reserve	Retained earnings	Total capital and reserves
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2008	154.4	4.9	29.2	(61.9)	(60.4)	1,144.6	1,210.8
Net change in available-for-sale instruments	-	-	-	(286.2)	-	-	(286.2)
Net change in cash flow hedges	-	-	-	-	(88.1)	-	(88.1)
Actuarial losses on post-retirement benefit obligations	-	-	-	-	-	(12.8)	(12.8)
Net losses not recognised in the Income Statement	-	-	-	(286.2)	(88.1)	(12.8)	(387.1)
Profit for the financial year	-	-	-	-	-	18.2	18.2
Total comprehensive (expense)/income	-	-	-	(286.2)	(88.1)	5.4	(368.9)
Dividends	-	-	-	-	-	(87.9)	(87.9)
Issue of new shares	206.9	194.0	-	-	-	-	400.9
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	3.3	3.3
Fair value of share options taken to share option reserve	-	-	-	-	-	3.4	3.4
Deficit on share option exercises	-	-	-	-	-	(3.5)	(3.5)
At 31 December 2008	361.3	198.9	29.2	(348.1)	(148.5)	1,065.3	1,158.1

Statements of Changes in Equity continued

For the year ended 31 December

Company	Share capital	Share premium reserve	Capital redemption reserve	Available-for-sale reserve	Cash flow hedge reserve	Retained earnings	Total capital and reserves
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2009	**361.3**	**198.9**	**29.2**	**(1,087.9)**	**(148.5)**	**994.2**	**347.2**
Net change in available-for-sale instruments	-	-	-	372.6	-	-	372.6
Net change in cash flow hedges	-	-	-	-	108.9	-	108.9
Actuarial losses on post-retirement benefit obligations	-	-	-	-	-	(75.5)	(75.5)
Net gains/(losses) not recognised in the Income Statement	-	-	-	372.6	108.9	(75.5)	406.0
Profit for the financial year	-	-	-	-	-	2.3	2.3
Total comprehensive income/(expense)	-	-	-	372.6	108.9	(73.2)	408.3
At 31 December 2009	**361.3**	**198.9**	**29.2**	**(715.3)**	**(39.6)**	**921.0**	**755.5**

Company	Share capital	Share premium reserve	Capital redemption reserve	Available-for-sale reserve	Cash flow hedge reserve	Retained earnings	Total capital and reserves
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2008	154.4	4.9	29.2	(61.9)	(60.4)	858.7	924.9
Net change in available-for-sale instruments	-	-	-	(1,026.0)	-	-	(1,026.0)
Net change in cash flow hedges	-	-	-	-	(88.1)	-	(88.1)
Actuarial losses on post-retirement benefit obligations	-	-	-	-	-	(12.8)	(12.8)
Net losses not recognised in the Income Statement	-	-	-	(1,026.0)	(88.1)	(12.8)	(1,126.9)
Profit for the financial year	-	-	-	-	-	232.9	232.9
Total comprehensive (expense)/income	-	-	-	(1,026.0)	(88.1)	220.1	(894.0)
Dividends	-	-	-	-	-	(87.9)	(87.9)
Issue of new shares	206.9	194.0	-	-	-	-	400.9
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	3.4	3.4
Fair value of share options taken to share option reserve	-	-	-	-	-	3.4	3.4
Deficit on share option exercises	-	-	-	-	-	(3.5)	(3.5)
At 31 December 2008	361.3	198.9	29.2	(1,087.9)	(148.5)	994.2	347.2

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.

Cash Flow Statements

For the year ended 31 December

	Group		Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Cash flows from operating activities				
(Loss)/profit for the financial year	**(98.3)**	18.2	**2.3**	232.9
Adjustments to reconcile net (loss)/profit to cash flow used in operating activities:				
- Income tax (credit)/charge	**(97.7)**	116.1	**(60.1)**	136.3
- Depreciation and amortisation	**0.4**	19.3	**0.4**	13.3
- Loan impairment loss	**592.7**	509.0	**319.6**	268.5
- Net cost of recoveries	**1.0**	(1.3)	**1.2**	(1.2)
- Investment impairment loss	**93.3**	191.6	**93.3**	191.6
- Impairment of investments in subsidiary undertakings	**-**	-	**8.5**	-
- Gain on sale of assets and liabilities	**-**	(216.3)	**-**	(433.9)
- Defined benefit pension scheme curtailment	**(13.4)**	-	**(13.4)**	-
- Interest on subordinated liabilities and other capital instruments	**92.5**	91.9	**96.1**	102.9
- Net profit on sale of property, plant and equipment and intangible assets	**-**	(7.5)	**-**	(7.5)
- Gains less losses on sale of debt securities	**10.5**	90.9	**10.5**	90.9
Cash flows from operating activities before changes in operating assets and liabilities	**581.0**	811.9	**458.4**	593.8
Net decrease/(increase) in operating assets:				
- Loans and advances to banks and customers	**2,577.9**	425.8	**4,024.1**	(7,348.9)
- Net proceeds from sale of assets	**-**	645.9	**-**	645.9
- Acquisitions of mortgage portfolios	**(291.3)**	(1,986.6)	**-**	-
- Debt securities	**485.0**	1,339.0	**1,056.8**	(6,260.1)
- Derivative financial instruments	**2,362.3**	(4,847.5)	**832.6**	(1,266.3)
- Prepayments and accrued income	**6.8**	10.1	**2.3**	13.3
- Other assets	**2.7**	5.1	**1.4**	5.0
Net (decrease)/increase in operating liabilities:				
- Deposits by banks and other deposits	**(6,796.1)**	(16,047.5)	**(9,006.1)**	(6,838.2)
- Derivative financial instruments	**(564.6)**	731.6	**(584.2)**	826.2
- Debt securities in issue	**(3,252.3)**	546.6	**(2,835.4)**	784.3
- Other liabilities	**109.3**	(62.0)	**116.1**	(65.9)
- Accruals and deferred income	**(148.0)**	(136.4)	**(167.9)**	4.9
- Provisions	**(30.8)**	(20.5)	**(30.8)**	(33.8)
- Income taxes (paid)/received	**(49.4)**	19.5	**(42.6)**	53.7
- Other non-cash items	**490.4**	(852.7)	**590.2**	(1,880.6)
Net cash used in operating activities	**(4,517.1)**	(19,417.7)	**(5,585.1)**	(20,766.7)
Cash flows from investing activities:				
- Proceeds from sale of savings-related assets and liabilities	**-**	612.0	**-**	612.0
- Cash balances transferred on sale of savings business	**-**	(76.8)	**-**	(12.6)
- Purchase of property, plant and equipment and intangible assets	**(0.9)**	(23.9)	**(0.9)**	(19.2)
- Proceeds from sale of property, plant and equipment	**2.6**	13.0	**-**	10.1
- Realisation of investment in subsidiary undertaking	**-**	-	**199.0**	100.0
- Capital injection into subsidiary undertakings	**-**	-	**-**	(811.0)
Net cash from/(used in) investing activities	**1.7**	524.3	**198.1**	(120.7)
Cash flows from financing activities:				
- Proceeds from disposal of own shares	**-**	3.3	**-**	3.3
- HM Treasury Working Capital Facility	**6,262.1**	2,275.7	**6,262.1**	2,275.7
- Statutory Debt	**2.3**	18,413.9	**2.3**	18,413.9
- Proceeds from rights issue	**-**	400.9	**-**	400.9
- Net proceeds from secured funding	**-**	689.3	**-**	689.3
- Repayments of secured funding	**(2,197.5)**	(2,850.4)	**(1,342.0)**	(2,516.8)
- Interest paid on subordinated liabilities and other capital instruments	**(40.2)**	(92.2)	**(41.0)**	(103.2)
- Dividends paid	**-**	(87.9)	**-**	(87.9)
Net cash from financing activities	**4,026.7**	18,752.6	**4,881.4**	19,075.2
Net decrease in cash and cash equivalents	**(488.7)**	(140.8)	**(505.6)**	(1,812.2)
Cash and cash equivalents at beginning of year	**4,194.5**	4,335.3	**2,256.2**	4,068.4
Cash and cash equivalents at end of year	**3,705.8**	4,194.5	**1,750.6**	2,256.2
Represented by cash and assets with original maturity of three months or less within:				
- Cash and balances at central banks	**306.4**	17.3	**300.0**	17.3
- Loans and advances to banks	**3,385.0**	3,317.9	**1,436.2**	1,380.8
- Debt securities	**14.4**	859.3	**14.4**	858.1
	3,705.8	4,194.5	**1,750.6**	2,256.2
Balances maintained with the Bank of England, excluded from cash and cash equivalents	**16.6**	83.1	**16.6**	83.1

As shown above, the Group maintains balances with the Bank of England which are not included in cash and cash equivalents for the purposes of the Cash Flow Statement because the Group is not free to use these funds.

Notes to the Financial Statements

1. Principal accounting policies

Bradford & Bingley plc ('the Company') is a public limited company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales.

These Financial Statements were authorised for issue by the Directors on 18 March 2010 and will be put to the shareholder for approval at the Company's Annual General Meeting to be held on 27 April 2010.

(a) Statement of compliance

The Group Financial Statements incorporate on a fully consolidated basis the Financial Statements of the Company and those entities (including special purpose structures) which are controlled by the Company (its subsidiaries), together referred to as 'the Group'. The Company Financial Statements present information about the Company as a separate entity and not about its group.

Both the Company Financial Statements and the Group Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRS'). In publishing the Company Financial Statements here together with the Group Financial Statements, the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Income Statement and related notes.

For these 2009 Financial Statements, including the 2008 comparative financial information where applicable, the Group and Company have adopted for the first time the following statements:

- The February 2008 amendment to IAS 1 'Presentation of Financial Statements'. This relates to presentation only, and adoption has had no material impact on the Group's or the Company's Income Statements, Balance Sheets or Cash Flow Statements.
- The March 2009 amendment to IFRS 7 'Financial Instruments: Disclosures'. This relates to disclosures only, and adoption has had no impact on the Group's or the Company's Income Statements, Balance Sheets or Cash Flow Statements. As permitted by the amended standard, the Group and Company have not presented comparative 2008 disclosures.
- IFRS 8 'Operating Segments'. This standard replaced IAS 14 'Segment Reporting'. The Group's business and operations comprise one single activity, principally within the United Kingdom, and are managed on that basis, and hence no segmental information has been provided.
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'. Though the Group has some overseas subsidiaries, it has no hedges of investments in these entities.

For these 2009 Financial Statements the Group and Company have not adopted the following statements:

- The January 2008 amendment to IFRS 3 'Business Combinations', which is mandatory for 2010 financial statements. It is anticipated that this amended standard will have no impact on the Group's or the Company's Income Statements, Balance Sheets or Cash Flow Statements.
- The July 2008 amendment to IAS 39 'Financial Instruments: Recognition and Measurement' relating to eligible hedged items, which is mandatory for 2010 financial statements. It is anticipated that this amended standard will have no impact on the Group's or the Company's Income Statements, Balance Sheets or Cash Flow Statements.
- IFRS 9 'Financial Instruments', issued in November 2009 as part of the IASB's project to replace IAS 39. This is not expected to be mandatory before 2012, and has not yet been adopted by the EU. The potential impacts on the Group and Company are under consideration.

(b) Basis of preparation

The Financial Statements are prepared on the historical cost basis except:

(i) the following assets and liabilities are carried at their fair value:

- derivative financial instruments;
- financial instruments categorised under IAS 39 as 'at fair value through profit or loss'; and
- financial instruments categorised under IAS 39 as 'available-for-sale'; and

(ii) where fair value hedge accounting has been applied, the carrying value of hedged items has been adjusted to take account of the fair value of the risk which has been hedged.

In the application of these accounting policies the Directors have made judgements that have a significant effect on the Financial Statements and have also made estimates that have a significant risk of giving rise to material adjustment in the next year; these judgements and estimates are discussed in note 39 to the Financial Statements.

The Directors consider that the accounting policies set out in this note are the most appropriate to the Group's and the Company's circumstances, have been consistently applied both to the Group and the Company in dealing with items which are considered material, and are supported by reasonable and prudent estimates and judgements. The accounting policies have been applied to all periods presented in these Financial Statements and are consistent with the accounting policies used by the Group in preparing its Interim Financial Information for the six months ended 30 June 2009.

The Financial Statements are presented in pounds sterling, which is the currency of the Group's and Company's primary operating environment and their functional currency.

The Group's business and operations comprise one single continuing activity, and hence no segmental analysis has been provided.

The Financial Statements are presented on a going concern basis.

Principles underlying going concern basis

The Financial Statements of the Group and Company have been prepared on a going concern basis. The validity of this basis is dependent on the funding position of the Company. At the date of approval of these Financial Statements, the Group and Company are reliant upon the financing facilities and also upon the guarantee arrangements provided to the Company by HM Treasury. Withdrawal of the financing facilities or the guarantee arrangements would have a significant impact on the Group's and Company's operations and their ability to continue as a going concern, in which case adjustments may have to be made to reduce the carrying value of assets to recoverable amounts and to provide for further liabilities that might arise. At the signing date, HM Treasury has confirmed its intentions to continue to provide funding until at least 30 April 2011.

On 25 January 2010 the EC announced that it had approved under the EU state aid rules the financing facilities and guarantee arrangements provided by HM Treasury, subject to certain conditions which the Directors are confident can be met. Accordingly, the Directors believe there is no longer any material uncertainty over the Group's and the Company's ability to continue as a going concern.

(c) Basis of consolidation

The Group's Financial Statements incorporate on a fully consolidated line-by-line basis the Financial Statements of the Company and those entities (including special purpose structures) which are controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Where subsidiaries have been acquired during a period, their results are consolidated into the Group's Financial Statements from the date control is transferred to the Group. Where subsidiaries have been disposed of, their results are consolidated to the date of disposal. On the acquisition of a business, fair values are attributed to the assets, liabilities and contingent liabilities acquired. Any difference between the consideration given and the fair value of the net assets acquired is capitalised as goodwill.

The Group has securitised various residential mortgage loans, generally by sale or transfer to special purpose structures which in turn issue securities to investors. The special purpose structures are consolidated line-by-line into the Group Financial Statements if they are, in substance, controlled by the Company. The Group presently receives substantially all of the post-tax profits of all the Special Purpose Vehicle ('SPV') entities and hence retains substantially all of the risks and rewards of the securitised loans, and consequently all of the SPVs are fully consolidated.

Notes to the Financial Statements

(d) Interest income and expense

For all interest-bearing financial instruments except derivatives, interest income and expense are recognised in the Income Statement on an Effective Interest Rate ('EIR') basis.

The EIR basis spreads the interest income or interest expense over the expected life of the instrument. The EIR is the rate that at the inception of the instrument exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating the EIR, future cash flows are estimated, considering all contractual terms of the instrument (for example prepayment options), but potential future credit losses are not considered. The calculation includes all directly attributable incremental fees and costs, premia on acquisition of mortgage portfolios and all other premia and discounts as well as interest.

(e) Fee and commission income

Where Value Added Tax (VAT) is charged, income is stated net of VAT.

Commission receivable from the sale of third party Regulated Financial Services products is recognised as income within 'fee and commission income' when the policy goes 'on risk', net of any provision for repayment in the event of early termination by the customer. If the commission is receivable on deferred terms, a deemed interest element of the commission is separated and recognised on an EIR basis over the deferred payment period.

Fee and commission income arises on various other activities and is accounted for within 'fee and commission income' in the Income Statement on an accruals basis as the services are performed, or as cash is received. Fee and commission income includes items relating to lending which do not qualify for inclusion in the EIR on loans.

(f) Bonuses payable

Accrual is made for all bonuses which have been earned by the Balance Sheet date, even though these may not subsequently be payable due to clawback or the employee leaving the Group.

(g) Post-retirement benefits

The Group operates a number of post-retirement benefit plans for its employees, including defined contribution plans, defined benefit plans and other post-retirement benefits (principally medical). The costs of these plans are charged to the Income Statement and retained earnings in accordance with IAS 19 'Employee Benefits'.

A defined contribution plan is a pension arrangement where the employer pays fixed contributions into a separate fund. The contributions are charged to the Income Statement when employees have rendered the related services, which is generally in the year of contribution.

A defined benefit plan is a pension arrangement that defines an amount of pension benefit that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and salary. The net deficit or surplus on the plan is carried on the Balance Sheet, comprising the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets. The defined benefit obligation is calculated semi-annually by independent qualified actuaries using the projected unit credit method. Details of the actuarial assumptions made are provided in note 30. Actuarial gains and losses are charged to retained earnings in full in the period in which they occur, and pass through the Consolidated Statement of Comprehensive Income rather than the Income Statement. The Company, being the sponsoring company of the plans, carries on its Balance Sheet the net deficit or surplus on each plan.

In accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', if the Group's defined benefit plan has a net surplus the surplus is capped at nil in the Group and Company Balance Sheets because the Group and Company do not have a clear unconditional right to a refund or to a reduction in contributions to the plan. The position is also adjusted to reflect any minimum funding requirement that the Company is obligated to pay.

As explained in note 30, during the year the defined benefit pension schemes were closed to future accrual of benefits, giving rise to a curtailment gain which has been recognised in the Income Statement.

Post-retirement medical benefits are accounted for in the same way as pension benefits, with the present value of the defined benefit obligation being carried as a liability on the Balance Sheet.

(h) Share-based payment

The Group and Company operated various share-based incentive schemes for employees and officers, including a Sharesave Scheme. Grants of shares, share options and other equity instruments were accounted for in accordance with IFRS 2 'Share-based Payment', under which the fair value of awards is measured at the date of grant, and charged to the Income Statement over the period to vesting, with a corresponding credit to retained earnings. Further details of the Group's fair value methodology are given in note 35. The charge was made only in respect of the number of awards that were expected to vest; this expected number was revised at each Balance Sheet date and any difference due to estimate revisions was charged or credited to the Income Statement over the period to vesting with a corresponding adjustment to retained earnings. The proceeds received on exercise of options net of any directly attributable transaction costs were credited to retained earnings.

In previous years the Group purchased some shares in the Company and held the shares until they were needed to satisfy share-based payment commitments. The purchase cost, including transaction costs, of these shares was deducted from retained earnings.

(i) Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes. Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward, and is not discounted to take account of the expected timing of realisation. Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the taxable differences can be utilised. Tax relating to items which are taken directly to reserves is also taken directly to reserves.

(j) Dividends

In accordance with IAS 10 'Events After the Balance Sheet Date' dividends payable on ordinary shares are recognised in retained earnings once they are appropriately authorised and are no longer at the discretion of the Company.

Dividends receivable (including those receivable from other Group entities) are recognised once the right to receive payment is established, in accordance with IAS 18 'Revenue'.

(k) Financial instruments

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' each financial asset is classified at initial recognition into one of four categories:

(i) Financial assets at fair value through profit or loss;
(ii) Held-to-maturity investments;
(iii) Loans and receivables; or
(iv) Available-for-sale;

and each financial liability into one of two categories:

(v) Financial liabilities at fair value through profit or loss; or
(vi) Other liabilities.

'The Fair Value Option' within IAS 39 permits designation of a financial asset or financial liability as being at fair value through profit or loss under wider circumstances than had previously been allowed. The Company uses this option to prevent technical accounting mismatches between the Company and other Group entities in respect of accounting for certain swap arrangements; use of this option has had no impact on the results or Balance Sheet of the Group.

Where the Directors believe it appropriate to do so, financial assets may be reclassified out of the 'fair value through profit or loss' and 'available-for-sale' categories to 'loans and receivables' or 'held to maturity' in accordance with the revisions to IAS 39 issued by the IASB in October 2008 and effective from July 2008. Reclassification is permitted only under certain restricted circumstances, including that there is no active market for the asset. The asset is reclassified using its fair value at the point of

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transfer, and from that point on is accounted for on an EIR basis. The difference between the carrying value at the point of reclassification and the expected value at the redemption date is recognised in profit or loss on an EIR basis over the expected life of the asset, and the asset's carrying value accretes up to the redemption amount over that period. The balance in the available-for-sale reserve which related to the asset is amortised to profit or loss over the expected life of the asset; in the Income Statement the amortisation of the difference between value at reclassification and at redemption and the amortisation out of the available-for-sale reserve exactly offset each other. If an active market for the asset resumes, the asset is reclassified back to the 'fair value through profit or loss' or 'available-for-sale' category.

Measurement of financial instruments is either at amortised cost (categories (ii), (iii) and (vi) above) or at fair value (categories (i), (iv) and (v) above), depending on the category of financial instrument.

Amortised cost is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method; the amortisation is taken to interest income or expense depending on whether the instrument is an asset or a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market exists, fair values are based on quoted market prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments. Interest income and interest expense on instruments carried at fair value are included in the Income Statement in 'interest receivable and similar income' or 'interest expense and similar charges'. Movements in fair value are recognised in the 'fair value movements' line in the Income Statement, except in the case of instruments categorised as 'available-for-sale', in which case the fair value movements are taken to the 'available-for-sale' reserve. On sale or derecognition of an available-for-sale instrument the accumulated fair value movements are transferred from the 'available-for-sale' reserve to the 'realised losses on financial instruments' line of the Income Statement.

Certain certificates of deposit, fixed and floating rate notes and mortgage-backed securities are classified as available-for-sale.

For the early part of 2008 the Group and Company operated a trading book; this ceased prior to the end of 2008. The assets and liabilities in the trading book were categorised as 'at fair value through profit or loss', and the net trading gains and losses were included in the Income Statement in 'realised losses on financial instruments'.

(l) Recognition and derecognition of financial instruments

Purchases and sales of mortgage portfolios are accounted for on the completion date. All other purchases and sales of financial assets are accounted for on the date of commitment to buy or sell (the 'trade date'). The initial carrying amount of an acquired mortgage portfolio is the purchase price; this is considered to be equivalent to the portfolio's fair value at the point of purchase. Any difference between this portfolio purchase price and the total amount outstanding on the acquired loans is amortised on an EIR basis in accordance with note 1(d). A financial asset is derecognised (i.e. removed from the Balance Sheet) only when substantially all of the risks and rewards associated with that asset have been transferred to another party and control is lost. In respect of the Company's secured funding structures, the Company sells to another entity the right to receive the cash flows arising on the loans which have been securitised. However, the Company receives substantially all of the post-tax profit of that entity, and hence retains substantially all of the risks and rewards of the securitised loans. Hence the securitised loans are retained on the Company's Balance Sheet.

(m) Impairment of financial assets

Financial assets which are not held at fair value through profit or loss are reviewed for indications of possible impairment throughout the year and at each published Balance Sheet date.

Loans and receivables

For each individual loan which exhibits indications of impairment (which includes all loans 12 or more months in arrears, those in possession and others which management consider to be individually impaired) the carrying value of the loan at the Balance Sheet date is reduced to the net present value of the expected future cash flows associated with the loan, calculated at the loan's original EIR. These cash flows include, where appropriate, estimated amounts recoverable by repossession and sale of the secured property, taking into account expectations of movements in house prices between the Balance Sheet date and the date of sale, and also taking into account a discount on property value to reflect a forced sale. All loans that have been assessed as having no individual impairment are then assessed collectively, grouped by loans with similar risk characteristics. Assessment is made of impairment arising due to events which are believed to have occurred by the Balance Sheet date but had not yet been reported, taking into account the economic climate in the market. This collective impairment is reflected by reducing the carrying value of total loans. The impairment of the loans is charged in the Income Statement in the 'loan impairment loss' line.

Interest income is recognised on impaired loans by applying the original EIR of the loan to the impaired balance.

A loan is written off and any associated impairment allowance released when and only when the property has been taken into possession and sold. Any subsequent proceeds are recognised on a cash basis and offset against 'loan impairment loss' in the Income Statement.

Possessions and LPAs

Where a property has been taken into possession, or a receiver has been appointed under the Law of Property Act to collect rental income on the property, the loan continues to be carried within 'loans and advances to customers'.

Debt securities held

Debt securities are carried at fair value or amortised cost, net of impairment, as detailed in note 1(n). Impairment is recognised when the debt security exhibits objective evidence of impairment or is uncollectible. Such evidence may include:

- Significant financial difficulty;
- Payment defaults;
- Renegotiation of terms due to borrower difficulty;
- Sustained fall in credit rating or creditworthiness;
- Significant restructuring;
- Disappearance of an active market;
- Significant and sustained fall in market price; or
- Observable data indicating measurable decrease in the estimated future cash flows from a group of financial assets, although the decrease cannot yet be identified within individual assets in the group.

Movements in the fair value which are a reflection of impairment of the long term value of the debt security are charged to 'investment impairment loss' in the Income Statement. Investment impairment losses recognised against debt securities are reversed through 'investment impairment loss' in the Income Statement if the improvement relates to an event occurring after the initial impairment was recognised.

(n) Debt securities held

Debt securities intended for use on a continuing basis in the Group's activities are categorised either as 'available-for-sale' or as 'loans and receivables'; for each instrument, the Directors adopt the category which they consider to be the most appropriate.

Debt securities categorised as available-for-sale are carried at fair value, with movements in fair value, excluding impairment provisions, being taken to the available-for-sale reserve. If a debt security which has been categorised as available-for-sale becomes impaired, the impairment is charged to the Income Statement in the 'investment impairment loss' line.

Notes to the Financial Statements

Debt securities categorised as loans and receivables are carried at amortised cost, less any impairment, with any impairment being charged to the Income Statement in the 'investment impairment loss' line.

Where the Directors believe it appropriate to do so, debt securities may be initially categorised as available-for-sale and subsequently recategorised to loans and receivables in accordance with the revisions to IAS 39 issued by the IASB in October 2008 and effective from July 2008.

At 31 December 2009 and 31 December 2008, debt securities included investments in structured investment vehicles ('SIVs') principal protected notes ('PPNs') and collateralised debt obligations ('CDOs'). The Group had no entitlement to board or management representation in respect of its investment in any SIV, PPN or CDO, and could not exert influence, and therefore the instruments were considered to fall outside the scope of IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'.

(o) Derivative financial instruments and hedge accounting

All of the Group's derivative contracts are used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions. For most of the Group's derivative contracts, hedge accounting is applied, but in other cases natural offsets apply, and as explained in note 1(k), the Company has used the provisions of the Fair Value Option amendment to IAS 39 to prevent technical accounting mismatches in respect of certain swap arrangements.

All derivatives are carried at fair value in the Balance Sheet, as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of a derivative includes any interest accrued on that derivative. Changes in the fair value of derivatives are charged to the Income Statement; however by applying the hedge accounting rules set out in IAS 39 the changes in fair value of derivatives which are used to hedge particular risks can either be mitigated in the Income Statement (fair value hedging) or deferred to reserves (cash flow hedging). The Group uses fair value hedge accounting and cash flow hedge accounting.

One-to-one fair value hedges

Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, provided that the hedge arrangement meets the requirements of IAS 39 to be classed as 'highly effective' the associated hedged item is carried in the Balance Sheet at fair value in respect of the hedged risk, with any gain or loss in that fair value recognised in the Income Statement, mitigating the fair value movements on the associated derivative financial instruments. Hence profit volatility is mitigated. The Income Statement immediately recognises any hedge accounting 'ineffectiveness', that is any difference between the fair value movement on the hedging instrument and that on the hedged item. Where a fair value hedge relationship is terminated or deemed not to be highly effective (other than as a result of the hedged item being derecognised from the Balance Sheet due to sale or other reason), the fair value adjustment relating to the terminated hedge relationship is amortised to the Income Statement over the period to the date of maturity of the hedged item. The derivative continues to be carried at fair value.

Portfolio fair value hedges

Where a group of derivative financial instruments hedges the interest rate exposure of a group of assets or liabilities, and the hedge meets the requirements of IAS 39 to be classed as 'highly effective', the hedge relationship is accounted for in the same way as a one-to-one fair value hedge except that the Balance Sheet carrying value of the hedged items is not adjusted; instead the difference between the carrying value and the fair value in respect of the hedged risk is carried on the Balance Sheet in 'fair value adjustments on portfolio hedging'.

Cash flow hedges

Where a derivative financial instrument hedges the variability in cash flows of an asset or liability, or of a highly probable forecast transaction, the effective portion of the change in fair value of the derivative is taken to the 'cash flow hedge reserve' and the remaining portion is charged immediately to the Income Statement. Where a cash flow hedge is terminated or deemed not to be effective, the balance remaining in the cash flow hedge reserve is amortised to the Income Statement over the remaining life of the hedged item. Where a forecast transaction is cash flow hedged and the transaction is no longer expected to occur, the gain or loss still held in the reserve is immediately recognised in the Income Statement.

Hedge effectiveness

At the inception of each hedging arrangement, the relationship between the hedging instruments and the hedged items is documented, as well as the risk management objective and strategy. Also documented is an assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging arrangement are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Under IAS 39 a hedge is deemed to be highly effective if effectiveness is forecast to fall, and is actually found to fall, within the 80% to 125% range. Any hedge relationship falling outside these limits is deemed to be ineffective and hedge accounting is discontinued.

Embedded derivatives

Certain financial instruments have derivative features embedded within them. Where the economic characteristics and risks of the embedded derivative are not closely related to those of the host instrument, and where changes in value in the host instrument are not reflected in the Income Statement, the embedded derivative is separated from the host and carried in the Balance Sheet at fair value within 'derivative financial instruments', with gains and losses on the embedded derivative being recognised in the Income Statement. In accordance with IFRIC 9 'Reassessment of Embedded Derivatives' the decision as to whether to separate and value an embedded derivative is reassessed when and only when the terms of the host contract are significantly modified.

(p) Investments in Group undertakings

In the Financial Statements of the Company, investments in Group undertakings are carried at cost less any impairment. Investments are reviewed at each published Balance Sheet date for any indications of impairment. If there is indication of impairment of any investment, the carrying value of the investment is reviewed, and any impairment identified is charged immediately in the Income Statement.

(q) Property, plant and equipment

The cost of additions and major alterations to land and buildings, equipment, fixtures and motor vehicles is capitalised. All property, plant and equipment is stated at historical cost less depreciation and, where appropriate, less impairment.

Depreciation is provided so as to write off the cost less the estimated residual value of each significant component of each item of property, plant and equipment over that component's estimated useful life, as follows:

- Land is not depreciated;
- Freehold buildings at 2% per annum on a straight line basis;
- Leasehold properties over the shorter of the lease period and 50 years on a straight line basis;
- Fixtures and fittings at 20% per annum on a straight line basis;
- Motor vehicles at 25% per annum on a reducing balance basis;
- Computer equipment at rates ranging from 20% to 33% per annum on a straight line basis; and
- Other equipment and major alterations to buildings at 10% per annum on a straight line basis.

All items of property, plant and equipment are reviewed annually for impairment. If any item is considered to be impaired, it is written down to the higher of value in use and estimated net proceeds of sale. In addition, the estimated useful lives and estimated residual values are also reassessed annually, and if they are judged to have changed then the rate of depreciation charged in periods after the date of the change reflects the revised estimates.

(r) Leases

Rentals under operating leases are charged to 'administrative expenses' on a straight line basis to the date of change in the rental amount. Typically operating leases have rent review dates in their terms, several years apart, and between those dates the annual rent remains constant. Any initial rent-free period and any lease premia paid are amortised over the full

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lease period on a straight line basis.

When the Group enters into a sale and leaseback arrangement, the leaseback is accounted for as a finance lease or an operating lease, according to its terms. If it is a finance lease, and the sale and leaseback gives rise to a profit, the profit is not recognised immediately but is deferred and amortised over the lease term. If it is an operating lease, any profit or loss is accounted for in the period of disposal.

(s) Intangible assets

Computer software licences are capitalised as intangible assets where it is probable that expected future benefits will flow to the Group. Thereafter they are carried at cost less accumulated amortisation. Amortisation is provided on a straight line basis over their useful economic lives, which may be up to five years. Those which have a life expectancy at the outset of less than two years are not capitalised but instead their costs are charged to the Income Statement as they arise. Costs that are directly associated with developing identifiable computer software systems are capitalised if the criteria in IAS 38 'Intangible Assets' are satisfied; the main criteria are that the successful completion of the development project is reasonably certain and that the software is expected to generate future economic benefits. Each item of capitalised developed computer software is carried at cost less accumulated amortisation; amortisation is provided on a straight line basis over its estimated useful life. Costs that do not qualify for capitalisation are charged to the Income Statement as they arise.

All items of intangible assets are reviewed annually for impairment. If any item is considered to be impaired, it is written down to the impaired value. In addition, the estimated useful lives are also reassessed annually, and if they are judged to have changed then the rate of amortisation charged in periods after the date of the change reflects the revised estimates.

(t) Debt and equity securities in issue

Issued securities are classed as liabilities if they represent a contractual obligation to deliver cash or another financial asset to another entity. Otherwise they are classed as equity. Any coupon paid on liabilities is accounted for as interest expense on an EIR basis and any coupon on equity as dividends.

On initial recognition, debt issued is measured at its fair value net of directly attributable issue and transaction costs. Subsequent measurement is at amortised cost using the EIR method to amortise attributable issue and transaction costs, premia and discounts over the life of the instrument. These costs are charged along with interest on the debt to 'interest expense and similar charges'. Unamortised amounts are added to or deducted from the carrying value of the instrument.

(u) Provisions

Provisions are recognised when, and only when, the following criteria are all met:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to net present value using rates which reflect the risks specific to the provision, if the effect of discounting is material.

Provisions are reviewed at each Balance Sheet date and are released if they no longer meet the above criteria.

(v) Subordinated liabilities and other capital instruments

'Other capital instruments' comprise perpetual preferred securities and a Limited Partnership Share issued by subsidiary undertakings of the Company. These instruments are carried on an EIR basis, and the carrying amount includes hedge accounting adjustments. Accrued interest is carried within accruals and deferred income.

(w) Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise balances which are highly liquid and have an original maturity of three months or less.

(x) Foreign currencies

The presentational and functional currency of the Group and Company is pounds sterling. Transactions which are not denominated in pounds sterling are translated into sterling at the spot rate of exchange on the date of the transaction. Monetary assets and liabilities which are not denominated in pounds sterling are translated into sterling at the closing rate of exchange at the Balance Sheet date.

Any foreign exchange gains or losses arising from settlement of transactions at rates different from those at the date of the transaction, and any unrealised foreign currency exchange gains and losses on unsettled foreign currency monetary assets and liabilities, are included in the Income Statement.

(y) Financial guarantees

The Company applies insurance accounting to financial guarantee contracts, and provides against any claims arising under such contracts.

(z) Loan commitments

Loan commitments are disclosed, but are accounted for only if there is an onerous commitment; there were no onerous loan commitments in the year or previous year. The commitment ceases to be disclosed once it is advanced or expires. Loan commitments comprise commitments to advance cash sums and also, in respect of lifetime mortgages, the commitment to continue to accrue further interest on the loan. The interest on lifetime mortgages rolls up and is not payable until redemption of the loan. For disclosure purposes, an estimate is made of the future interest which is expected to accrue on the lifetime mortgages which were outstanding as at the Balance Sheet date, up to redemption of these loans. This estimate is made using actuarial assumptions obtained from independent actuaries.

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2. Gain on sale of assets and liabilities

	Group 2008
	£m
Consideration on sale of savings related assets and liabilities	612.0
Book value of assets transferred	(264.1)
Impairment of assets retained	(72.7)
Gain on curtailment of post-retirement benefit obligations (see note 30d)	23.1
Net transaction and restructuring costs	(82.0)
Total	216.3

On 29 September 2008 the Chancellor of the Exchequer announced that by The Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008 ('the Transfer Order') under the Banking (Special Provisions) Act 2008, the shares of the Company were transferred to the Treasury Solicitor as nominee for HM Treasury and the Group's UK and Isle of Man savings related assets and liabilities along with its branch network were transferred to Abbey. These transactions are referred to in this document as the Transfer. The net transaction and restructuring costs noted in the table include redundancy and other expenses incurred as a result of the Transfer.

3. Net interest income

	Group	
	2009	2008
	£m	£m
Net interest income	**612.4**	737.4
Average interest-earning assets ('IEA')	**47,706**	50,433
Financed by:		
- Interest-bearing liabilities	**27,509**	43,603
- Interest-free liabilities*	**20,197**	6,830
Average rates:	**%**	%
- Gross yield on IEA	**3.94**	6.19
- Cost of interest-bearing liabilities	**(4.57)**	(5.61)
Interest spread	**(0.63)**	0.58
Contribution of interest-free liabilities	**1.92**	0.88
Net interest margin	**1.29**	1.46
Average bank base rate	**0.65**	4.68
Average 3-month LIBOR	**1.21**	5.51
Average 3-year swap rate	**2.63**	5.03

* Interest-free liabilities are calculated as an average over the year. Prior to the Transfer, interest-free liabilities were primarily share capital and reserves. Since the Transfer, interest-free liabilities also include the Statutory Debt.

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

	Group	
	2009 £m	2008 £m
Interest accrued on impaired financial assets	**32.4**	17.6

Notes to the Financial Statements

4. Administrative expenses

	Group 2009 £m	Group 2008 £m
Staff costs (see note 6)	**38.7**	85.7
Property operating lease rentals	**0.6**	6.9
Depreciation and amortisation (see notes 20 and 21)	**0.4**	19.3
Other legal and professional services	**25.8**	29.3
IT costs	**46.8**	42.1
Other administrative expenses	**24.8**	69.9
Ongoing administrative expenses	**137.1**	253.2
Other net expenses	**-**	23.7*
Total	**137.1**	276.9

*Other net expenses in 2008 comprised restructuring costs and contract termination fees, net of provision releases.

Remuneration of auditor and associates	Group 2009 £m	Group 2008 £m
Statutory audit of the Company and consolidated accounts	**0.4**	0.5
Fees payable to the Group's auditor and its associates for other services:		
- Auditing of the Company's subsidiary undertakings	**0.1**	0.1
- Other services pursuant to legislation	**0.4**	1.1
- Other services relating to taxation	**0.2**	0.2
- Regulatory and other services	**0.3**	0.6
Total	**1.4**	2.5

5. FSCS levy

In 2009 the Company paid £7.9m in respect of the FSCS levy for the scheme year 2008/2009, which was triggered by holding retail deposits on 31 December 2007 and is calculated based on the amount of retail deposits held at that date. As at 31 December 2008 it was believed that the Company would have no liability to pay this levy, but it became clear during 2009 that this levy would be payable. On the basis that the Company did not hold any such retail deposits after the Transfer, it is unlikely that the Company will be subject to these levy charges going forward.

6. Staff costs and numbers

	Full time		Part time		Full time equivalent	
	2009	2008	**2009**	2008	**2009**	2008
	Number	Number	**Number**	Number	**Number**	Number
Group average	**817**	2,070	**152**	566	**917**	2,420
Company average	**679**	1,469	**98**	424	**746**	1,726

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

	Full time		Part time		Full time equivalent	
	2009 Number	2008 Number	**2009 Number**	2008 Number	**2009 Number**	2008 Number
Group	**794**	838	**149**	157	**892**	942
Company	**667**	451	**98**	65	**731**	495

The aggregate costs of these persons were as follows:

	Group 2009 £m	Group 2008 £m
Wages and salaries	**30.0**	75.7
Social security costs	**3.2**	8.3
Defined benefit pension costs (see note 30d)	**4.2**	1.7
Defined contribution pension costs (see note 30a)	**0.7**	1.7
Other post-retirement benefits costs (see note 30d)	**0.6**	0.7
Equity-settled share based payment (see note 35)	**-**	(2.4)
Total	**38.7**	85.7

Staff costs include Executive Directors' emoluments of £2.2m (2008: £3.8m, of which £1.6m was emoluments of persons who remained Directors during 2009). Details of the remuneration of the Directors, including the highest paid director, are shown in the Directors' Remuneration Report on pages 24 to 29. Staff costs include £37,000 (2008: £nil) in respect of the Bank Payroll Tax on bonuses over £25,000, relating to 8 people. All of these bonuses are deferred and subject to claw back.

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7. Taxation

	Group	
	2009	2008
	£m	£m
Current taxation credit/(expense):		
- UK corporation tax on loss/profit for the financial year	**38.2**	(103.6)
- Adjustments in respect of previous years	**17.3**	14.4
	55.5	(89.2)
Foreign taxation	**(8.2)**	(29.9)
Total current taxation	**47.3**	(119.1)
Deferred taxation credit:		
- Origination and reversal of temporary differences (see note 19)	**50.4**	3.0
Total taxation credit/(expense) per the Income Statement	**97.7**	(116.1)

	Group	
	2009 £m	2008 £m
The following current tax was recognised directly in equity during the year:		
- Relating to available-for-sale debt securities	**(97.8)**	92.6
The following tax was recognised in equity during the year in deferred tax:		
- Relating to cash flow hedge reserve	**(42.4)**	34.3
- Relating to available-for-sale debt securities	**159.3**	(157.0)
- Relating to actuarial losses on post-retirement benefit obligations	**29.5**	5.0
Net credit/(charge) to equity	**48.6**	(25.1)

The 2009 foreign taxation charge includes a charge of £nil (2008: £nil) in respect of previous years.

The total taxation credit/(expense) differs from the theoretical amount that would be derived by applying the weighted standard UK corporation tax rate to the Group's results as follows:

	Group	
	2009 £m	2008 £m
(Loss)/profit before taxation	**(196.0)**	134.3
UK corporation tax at 28%/28.5%	**54.9**	(38.3)
Effects of:		
- Expenses not deductible for taxation	**(1.2)**	(17.0)
- Deferred tax not recognised	**(3.9)**	(77.3)
- Effect of overseas tax rates	**4.7**	(0.2)
- Change in rate effective 1 April 2008 on deferred tax items	**-**	1.8
- Adjustments in respect of previous years	**43.2**	14.9
Total taxation credit/(expense) for the year	**97.7**	(116.1)
Effective tax rate (%)	**49.8**	86.4

Deferred tax appropriately reflects the change to the standard rate of UK corporation tax from 30% to 28% which became effective on 1 April 2008.

The weighted standard rate of UK corporation tax for 2009 was 28.0% (2008: 28.5%). The adjustment of £43.2m in respect of previous years relates largely to recognition of previously unrecognised tax losses following agreement with HM Revenue & Customs ('HMRC').

8. Dividends

No dividends were declared or paid in respect of 2008 or 2009, and the Directors do not recommend the payment of a final dividend in respect of 2009. A 2007 final dividend of 14.3 pence per share (total £87.9m) was paid on 2 May 2008 to shareholders on the register at the close of business on 25 March 2008.

9. Loans and advances to banks

At 31 December	Group		Company	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Items in the course of collection from other banks	**29.0**	16.1	**27.7**	16.1
Amounts due from banks	**3,413.3**	3,333.1	**1,408.5**	1,364.7
Total	**3,442.3**	3,349.2	**1,436.2**	1,380.8

Notes to the Financial Statements

10. Loans and advances to customers

At 31 December	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Net of impairment (see note 11):				
- Advances secured on residential properties	**38,187.9**	40,988.8	**29,173.7**	31,583.7
- Other secured advances	**798.3**	837.2	**798.3**	837.2
	38,986.2	41,826.0	**29,972.0**	32,420.9
- Amounts due from subsidiary undertakings	**-**	-	**24,371.7**	26,201.2
Total	**38,986.2**	41,826.0	**54,343.7**	58,622.1

Loans and advances to customers include advances secured on residential properties amounting to £14,673.5m (2008: £16,221.2m) for the Group and Company which have been sold to bankruptcy remote special purpose vehicles whereby substantially all of the risks and rewards of the portfolio are retained by the Group/Company. Accordingly all these loans and advances are retained on the Group's/Company's Balance Sheets. Further details are provided in note 13.

Loans and advances to customers comprise the following product types:

Group	Balances	Redemptions		Balances	Redemptions	
		At 31 December 2009			At 31 December 2008	
	£m	**%**	**£m**	£m	%	£m
Residential						
Organic						
Buy-to-let	**21,527.3**	**72**	**(602.1)**	22,198.8	68	(1,442.0)
Self-cert	**4,951.8**	**16**	**(363.6)**	5,381.6	17	(747.6)
Standard and other specialist	**3,507.1**	**12**	**(817.7)**	4,769.3	15	(549.5)
Total	**29,986.2**	**100**	**(1,783.4)**	32,349.7	100	(2,739.1)
Acquired						
Buy-to-let	**2,673.9**	**33**	**(113.9)**	2,690.3	31	(202.1)
Self-cert	**3,033.3**	**37**	**(331.6)**	3,335.1	39	(770.7)
Standard and other specialist	**2,473.9**	**30**	**(227.9)**	2,592.2	30	(458.5)
Total	**8,181.1**	**100**	**(673.4)**	8,617.6	100	(1,431.3)
Buy-to-let	**24,201.2**	**63**	**(716.0)**	24,889.1	61	(1,644.1)
Self-cert	**7,985.1**	**21**	**(695.2)**	8,716.7	21	(1,518.3)
Standard and other specialist	**5,981.0**	**16**	**(1,045.6)**	7,361.5	18	(1,008.0)
Total residential	**38,167.3**	**100**	**(2,456.8)**	40,967.3	100	(4,170.4)
Residential	**38,167.3**	**98**	**(2,456.8)**	40,967.3	98	(4,170.4)
Commercial property	**798.3**	**2**	**(13.9)**	837.2	2	(86.7)
Housing associations	**20.6**	**-**	**(0.9)**	21.5	-	(113.9)
Total	**38,986.2**	**100**	**(2,471.6)**	41,826.0	100	(4,371.0)

Company	Balances	Redemptions		Balances	Redemptions	
		At 31 December 2009			At 31 December 2008	
	£m	**%**	**£m**	£m	%	£m
Residential						
Buy-to-let	**19,262.3**	**66**	**(572.5)**	19,906.0	63	(1,352.0)
Self-cert	**6,179.8**	**21**	**(508.8)**	6,773.2	22	(879.4)
Standard and other specialist	**3,711.0**	**13**	**(850.1)**	4,883.0	15	(664.7)
Total	**29,153.1**	**100**	**(1,931.4)**	31,562.2	100	(2,896.1)
Residential	**29,153.1**	**97**	**(1,931.4)**	31,562.2	97	(2,896.1)
Commercial property	**798.3**	**3**	**(13.9)**	837.2	3	(86.7)
Housing associations	**20.6**	**-**	**(0.9)**	21.5	-	(113.9)
Total	**29,972.0**	**100**	**(1,946.2)**	32,420.9	100	(3,096.7)

All of the Company's loans and advances to customers are organic (i.e. originated by companies in the Group).

Notes to the Financial Statements

11. Loan impairment loss

Group 2009	On residential mortgages £m	On commercial property and housing associations £m	Total £m
Allowances for credit losses against loans and advances to customers have been made as follows:			
Opening provision at 1 January 2009	**467.7**	**30.7**	**498.4**
Movements during the year:			
- Write-offs	**(154.8)**	**-**	**(154.8)**
- Loan impairment charge	**579.3**	**21.5**	**600.8**
- Discount unwind	**(8.1)**	**-**	**(8.1)**
Net movements during the year	**416.4**	**21.5**	**437.9**
Closing provision at 31 December 2009	**884.1**	**52.2**	**936.3**
The Income Statement charge comprises:			
- Loan impairment charge	**579.3**	**21.5**	**600.8**
- Net cost of recoveries	**1.0**	**-**	**1.0**
- Discount unwind	**(8.1)**	**-**	**(8.1)**
Total Income Statement charge	**572.2**	**21.5**	**593.7**

2008			
Allowances for credit losses against loans and advances to customers have been made as follows:			
Opening provision at 1 January 2008	54.8	0.1	54.9
Movements during the year:			
- Write-offs	(65.5)	-	(65.5)
- Loan impairment charge	480.9	30.6	511.5
- Discount unwind	(2.5)	-	(2.5)
Net movements during the year	412.9	30.6	443.5
Closing provision at 31 December 2008	467.7	30.7	498.4
The Income Statement charge comprises:			
- Loan impairment charge	480.9	30.6	511.5
- Recoveries net of costs	(1.3)	-	(1.3)
- Discount unwind	(2.5)	-	(2.5)
Total Income Statement charge	477.1	30.6	507.7

Notes to the Financial Statements

11. Loan impairment loss (continued)

Company **2009**	On residential mortgages £m	On commercial property and housing associations £m	Total £m
Allowances for credit losses against loans and advances to customers have been made as follows:			
Opening provision at 1 January 2009	**241.3**	**30.7**	**272.0**
Movements during the year:			
- Write-offs	**(48.1)**	**-**	**(48.1)**
- Loan impairment charge	**301.9**	**21.5**	**323.4**
- Discount unwind	**(3.8)**	**-**	**(3.8)**
Net movements during the year	**250.0**	**21.5**	**271.5**
Closing provision at 31 December 2009	**491.3**	**52.2**	**543.5**
The Income Statement charge comprises:			
- Loan impairment charge	**301.9**	**21.5**	**323.4**
- Net cost of recoveries	**1.2**	**-**	**1.2**
- Discount unwind	**(3.8)**	**-**	**(3.8)**
Total Income Statement charge	**299.3**	**21.5**	**320.8**
2008			
Allowances for credit losses against loans and advances to customers have been made as follows:			
Opening provision at 1 January 2008	15.6	0.1	15.7
Movements during the year:			
- Write-offs	(12.2)	-	(12.2)
- Loan impairment charge	237.9	30.6	268.5
Net movements during the year	225.7	30.6	256.3
Closing provision at 31 December 2008	241.3	30.7	272.0
The Income Statement charge comprises:			
- Loan impairment charge	237.9	30.6	268.5
- Recoveries net of costs	(1.2)	-	(1.2)
Total Income Statement charge	236.7	30.6	267.3

In the Balance Sheet the carrying values of the impaired assets are presented net of these impairment allowances.

Notes to the Financial Statements

11. Loan impairment loss (continued)

In respect of loans and advances to customers, the Group and Company hold collateral in the form of mortgages over residential properties. The fair value of this collateral was as follows:

At 31 December	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Neither past due nor impaired	**49,967.7**	53,156.6	**40,122.6**	45,303.1
Past due but not impaired	**3,285.4**	3,964.8	**2,173.4**	2,519.6
Individually impaired	**1,863.5**	911.2	**1,061.7**	316.8
Total	**55,116.6**	58,032.6	**43,357.7**	48,139.5

If the collateral amount on each individual loan were capped at the amount of the balance outstanding, and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

At 31 December	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Neither past due nor impaired	**33,495.2**	36,001.8	**26,237.9**	28,679.1
Past due but not impaired	**2,745.2**	3,415.7	**1,739.0**	2,036.3
Individually impaired	**1,733.8**	804.0	**967.9**	292.8
Total	**37,974.2**	40,221.5	**28,944.8**	31,008.2
The individually impaired balances above include the following carrying amount of assets in possession, capped at the balance outstanding	**131.0**	61.7	**69.6**	16.6

The fair value of the collateral is estimated by taking the most recent valuation of the property and adjusting for positive or negative house price inflation.

The indexed average loan to value (LTV) of residential loans and advances to customers was as follows:

At 31 December	Group		Company	
	2009 %	2008 %	**2009 %**	2008 %
Neither past due nor impaired	**68.8**	69.7	**66.9**	64.9
Past due but not impaired	**85.6**	88.9	**81.5**	82.7
Individually impaired	**99.4**	93.1	**96.0**	95.7
Total book	**70.9**	71.4	**68.4**	66.1

After a property has been taken into possession, the process for sale is designed to mitigate any loss or maximise any potential surplus for the borrower. Typically the property is sold by private treaty, via a locally appointed agent, as quickly as possible for the best price attainable, taking into consideration market, property and general economic conditions. If it becomes apparent that the property will not sell by private treaty, consideration is given to submitting the property to an auction, following an auction appraisal and a recommendation by the Company's appointed Asset Manager.

During 2009, the number of cases three months or more in arrears has increased to 19,159 cases at 31 December 2009 from 17,355 cases at 31 December 2008. In percentage terms, these numbers equate to 5.54% of the mortgage book compared to 4.60%. The total balances of these loans at 31 December 2009 was £2,893.1m (2008: £2,514.1m).

Notes to the Financial Statements

11. Loan impairment loss (continued)

In respect of loans and advances to customers, the Group and Company hold collateral in the form of mortgages over residential properties. The fair value of this collateral was as follows:

Group	At 31 December 2009			At 31 December 2008		
	On residential mortgages £m	On commercial property and housing association £m	Total £m	On residential mortgages £m	On commercial property and housing association £m	Total £m
Neither past due nor impaired	34,388.0	447.9	34,835.9	37,089.5	609.5	37,699.0
Past due but not impaired:						
- up to 3 months	1,390.1	-	1,390.1	1,831.5	-	1,831.5
- 3 to 6 months	746.9	-	746.9	917.3	-	917.3
- 6 to 12 months	674.6	-	674.6	777.7	-	777.7
Individually impaired	1,851.8	423.2	2,275.0	819.0	279.9	1,098.9
	39,051.4	871.1	39,922.5	41,435.0	889.4	42,324.4
Impairment allowances	(884.1)	(52.2)	(936.3)	(467.7)	(30.7)	(498.4)
Loans and advances to customers net of impairment allowances	38,167.3	818.9	38,986.2	40,967.3	858.7	41,826.0
Impairment allowances:						
- individual	479.0	52.2	531.2	196.6	30.6	227.2
- collective	405.1	-	405.1	271.1	0.1	271.2
Total impairment allowances	884.1	52.2	936.3	467.7	30.7	498.4

Company	At 31 December 2009			At 31 December 2008		
	On residential mortgages £m	On commercial property and housing association £m	Total £m	On residential mortgages £m	On commercial property and housing association £m	Total £m
Neither past due nor impaired	26,854.2	447.9	27,302.1	29,417.2	609.5	30,026.7
Past due but not impaired:						
- up to 3 months	934.6	-	934.6	1,239.6	-	1,239.6
- 3 to 6 months	463.7	-	463.7	518.5	-	518.5
- 6 to 12 months	372.9	-	372.9	325.0	-	325.0
Individually impaired	1,019.0	423.2	1,442.2	303.2	279.9	583.1
	29,644.4	871.1	30,515.5	31,803.5	889.4	32,692.9
Impairment allowances	(491.3)	(52.2)	(543.5)	(241.3)	(30.7)	(272.0)
Loans and advances to customers net of impairment allowances	29,153.1	818.9	29,972.0	31,562.2	858.7	32,420.9
Impairment allowances:						
- individual	226.0	52.2	278.2	81.2	30.6	111.8
- collective	265.3	-	265.3	160.1	0.1	160.2
Total impairment allowances	491.3	52.2	543.5	241.3	30.7	272.0

The above table includes loans and advances to customers within 'neither past due nor impaired' but which would have been shown as past due or impaired other than due to renegotiation; these were loans where arrears were capitalised during 2009. These loans amounted to £95.2m for Group (2008: £nil) and £72.8m for company (2008: £nil).

Notes to the Financial Statements

11. Loan impairment loss (continued)

Arrears and possessions are monitored for the Group as a whole, and also split by type of product, and split between the loans which the Group originally advanced to customers and the loans which the Group acquired from other lenders.

Residential arrears and possessions – total Group		At 31 December 2009	At 31 December 2008
Arrears			
Over 3 months			
Number of cases	Number	**18,197**	16,712
Proportion of total	%	**5.26**	4.43
Asset value	£m	**2,736.4**	2,404.0
Proportion of book	%	**7.17**	5.87
Possessions			
Number of cases	Number	**962**	643
Proportion of total	%	**0.28**	0.17
Asset value	£m	**156.7**	110.1
Proportion of book	%	**0.41**	0.27
Total arrears and possessions			
Number of cases	Number	**19,159**	17,355
Proportion of total	%	**5.54**	4.60
Asset value	£m	**2,893.1**	2,514.1
Proportion of book	%	**7.58**	6.14
Total value of payments overdue	£m	**124.5**	112.5
Proportion of total book	%	**0.33**	0.27
Residential loan impairment balance			
As % of residential balances	%	**2.26**	1.13
As % of residential arrears and possessions	%	**30.56**	18.60

Analysis of residential accounts 3+ months in arrears by product		At 31 December 2009	At 31 December 2008
Arrears			
Buy-to-let			
Number of cases	Number	**11,316**	9,511
Proportion of total	%	**5.72**	4.68
Asset value	£m	**1,722.9**	1,421.7
Proportion of book	%	**7.12**	5.71
Self-cert			
Number of cases	Number	**3,521**	3,370
Proportion of total	%	**6.95**	6.09
Asset value	£m	**623.3**	584.7
Proportion of book	%	**7.81**	6.71
Other			
Number of cases	Number	**3,360**	3,831
Proportion of total	%	**3.45**	3.23
Asset value	£m	**390.2**	397.6
Proportion of book	%	**6.52**	5.40

Analysis of residential accounts 3+ months in arrears: Loans advanced to customers by companies within the Group (organic)		At 31 December 2009	At 31 December 2008
Arrears			
Total			
Number of cases	Number	**12,423**	11,715
Proportion of total	%	**4.31**	3.70
Asset value	£m	**1,802.6**	1,605.9
Proportion of book	%	**6.01**	4.96
Buy-to-let			
Number of cases	Number	**9,389**	7,931
Proportion of total	%	**5.31**	4.36
Asset value	£m	**1,430.7**	1,190.4
Proportion of book	%	**6.65**	5.36
Self-cert			
Number of cases	Number	**1,569**	1,715
Proportion of total	%	**5.00**	5.05
Asset value	£m	**280.3**	299.2
Proportion of book	%	**5.66**	5.56
Other			
Number of cases	Number	**1,465**	2,069
Proportion of total	%	**1.83**	2.06
Asset value	£m	**91.6**	116.3
Proportion of book	%	**2.61**	2.43

Notes to the Financial Statements

11. Loan impairment loss (continued)

Arrears and possessions (continued)

Analysis of residential accounts 3+ months in arrears: Loans to customers acquired from other lenders		**At 31 December 2009**	At 31 December 2008
Arrears			
Total			
Number of cases	Number	**5,774**	4,997
Proportion of total	%	**10.06**	8.23
Asset value	£m	**933.8**	798.1
Proportion of book	%	**11.42**	9.26
Buy-to-let			
Number of cases	Number	**1,927**	1,580
Proportion of total	%	**9.15**	7.44
Asset value	£m	**292.2**	231.3
Proportion of book	%	**10.93**	8.60
Self-cert			
Number of cases	Number	**1,952**	1,655
Proportion of total	%	**10.12**	7.75
Asset value	£m	**343.0**	285.5
Proportion of book	%	**11.31**	8.56
Other			
Number of cases	Number	**1,895**	1,762
Proportion of total	%	**11.14**	9.75
Asset value	£m	**298.6**	281.3
Proportion of book	%	**12.07**	10.85

12. Acquisitions of mortgage portfolios

During the year the Group acquired £248.7m (2008: £1,302.1m) of mortgage portfolios from GMAC-RFC Limited ('GMAC') and £42.6m (2008: £550.4m) from Kensington Mortgage Company Limited ('Kensington') under contractual agreements for the purchase of mortgage portfolios.

These acquisitions completed the Group's remaining commitments to purchase mortgage portfolios from GMAC and Kensington. The Group has no further commitment to purchase mortgage portfolios.

Notes to the Financial Statements

13. Securitised assets and secured funding

Group At 31 December 2009	Date of transaction	Securitised assets £m	Loan notes in issue £m
Securitisations			
Aire Valley Mortgages 2004-1 plc	October 2004	830.9	638.3
Aire Valley Mortgages 2005-1 plc	April 2005	649.5	499.0
Aire Valley Mortgages 2006-1 plc	August 2006	3,021.2	2,321.0
Aire Valley Mortgages 2007-1 plc	May 2007	2,504.9	1,924.4
Aire Valley Mortgages 2007-2 plc	November 2007	1,261.1	968.7
Bradford & Bingley Warehousing No. 1 LLP	June 2008	1,512.9	724.6
Aire Valley Mortgages 2008-1 plc	July 2008	3,774.8	2,900.0
Bowler Finance plc	July 2008	3,885.8	3,884.6
		17,441.1	13,860.6
Less loan notes held by Bradford & Bingley plc		(9,261.5)	(7,950.3)
Total		8,179.6	5,910.3
Covered Bonds			
Bradford & Bingley Covered Bonds LLP	May 2006	3,083.0	2,043.4
Bradford & Bingley Covered Bonds LLP	June 2006	346.0	229.3
Bradford & Bingley Covered Bonds LLP	October 2006	509.7	337.8
Bradford & Bingley Covered Bonds LLP	June 2007	2,228.4	1,477.0
Bradford & Bingley Covered Bonds LLP	July 2007	221.6	146.9
Bradford & Bingley Covered Bonds LLP	October 2007	105.2	69.7
Bradford & Bingley Covered Bonds LLP	January 2008	754.4	500.0
Bradford & Bingley Covered Bonds LLP	September 2008	2,715.7	1,800.0
		9,964.0	6,604.1
Less Covered Bonds held by Bradford & Bingley plc		(3,470.1)	(2,300.0)
Total		6,493.9	4,304.1
Total		14,673.5	10,214.4

Group At 31 December 2008	Date of transaction	Securitised assets £m	Loan notes in issue £m
Securitisations			
Aire Valley Mortgages 2004-1 plc	October 2004	807.7	638.3
Aire Valley Mortgages 2005-1 plc	April 2005	631.4	499.0
Aire Valley Mortgages 2006-1 plc	August 2006	3,074.9	2,430.1
Aire Valley Mortgages 2007-1 plc	May 2007	3,157.1	2,495.1
Aire Valley Mortgages 2007-2 plc	November 2007	1,240.6	980.5
Bradford & Bingley Warehousing No. 1 LLP	June 2008	1,667.9	914.8
Aire Valley Mortgages 2008-1 plc	July 2008	3,669.4	2,900.0
Bowler Finance plc	July 2008	4,235.6	4,232.8
		18,484.6	15,090.6
Less loan notes held by Bradford & Bingley plc		(9,503.1)	(8,324.7)
Total		8,981.5	6,765.9
Covered Bonds			
Bradford & Bingley Covered Bonds LLP	May 2004	1,720.8	1,342.0
Bradford & Bingley Covered Bonds LLP	May 2006	2,620.1	2,043.4
Bradford & Bingley Covered Bonds LLP	June 2006	294.0	229.3
Bradford & Bingley Covered Bonds LLP	October 2006	433.1	337.8
Bradford & Bingley Covered Bonds LLP	June 2007	1,893.9	1,477.0
Bradford & Bingley Covered Bonds LLP	July 2007	188.4	146.9
Bradford & Bingley Covered Bonds LLP	September 2007	641.1	500.0
Bradford & Bingley Covered Bonds LLP	October 2007	89.4	69.7
Bradford & Bingley Covered Bonds LLP	January 2008	641.1	500.0
Bradford & Bingley Covered Bonds LLP	September 2008	2,491.4	1,943.0
		11,013.3	8,589.1
Less Covered Bonds held by Bradford & Bingley plc		(3,773.6)	(2,943.0)
Total		7,239.7	5,646.1
Total		16,221.2	12,412.0

Notes to the Financial Statements

13. Securitised assets and secured funding (continued)

The Company held £14,673.5m of mortgage assets as at 31 December 2009 (2008: £16,221.2m) within loans and advances to customers to secure funding of £10,214.4m (2008: £12,412.0m). The loan note amounts above are the principal amounts calculated using the exchange rates at the date of issue. The carrying amount of this secured funding, translated using exchange rates at the Balance Sheet dates, is included in debt securities in issue (see note 26).

At the time of the Transfer, HM Treasury provided a guarantee with regard to certain wholesale borrowings existing at the time of the Transfer. The Company pays a fee for this guarantee. This guarantee was subject to approval by the EC under the EU state aid rules. As described in note 45a, EC approval was announced on 25 January 2010.

A 'special purpose vehicle' ('SPV') is a structure comprising one or more legal entities, set up to act as a trust for debt investors, with the aim of obtaining financing. A Group company sells to another entity the right to receive the cash flows arising on certain loans. However, the mortgage originator receives substantially all of the post-tax profit of that entity, and hence retains substantially all of the risks and rewards of the securitised loans. Hence the securitised loans are retained on the mortgage originator's balance sheet. For the same reason all SPVs to which the Group has transferred rights to mortgages are consolidated into the Group Financial Statements.

(a) Aire Valley Mortgages 2004-1 plc

This SPV issued £2,000.0m of loan notes denominated in US Dollars, Euros and Sterling in October 2004 to purchase a £2,000.0m share in the Master Trust. £225.0m of loan notes were redeemed in September 2005, £500.0m in June 2007, £500.0m in December 2007, £96.0m in March 2008 and £40.7m in June 2008. At 31 December 2009 the value of the share in the Master Trust was £638.3m (2008: £638.3m).

(b) Aire Valley Mortgages 2005-1 plc

This SPV issued £998.5m of loan notes denominated in US Dollars, Euros and Sterling in April 2005 to purchase a £998.5m share in the Master Trust. £216.2m of loan notes were redeemed in December 2007, £267.1m in March 2008 and £16.2m in June 2008. At 31 December 2009 the value of the share in the Master Trust was £499.0m (2008: £499.0m).

(c) Aire Valley Mortgages 2006-1 plc

This SPV issued £2,430.1m of loan notes denominated in US Dollars, Euros and Sterling in August 2006 to purchase a £2,430.1m share in the Master Trust. £109.1m of loan notes were redeemed in June 2009. At 31 December 2009 the value of the share in the Master Trust was £2,321.0m (2008: £2,430.1m).

(d) Aire Valley Mortgages 2007-1 plc

This SPV issued £2,495.1m of loan notes denominated in US Dollars, Euros and Sterling in May 2007 to purchase a £2,495.1m share in the Master Trust. £166.6m of loan notes were redeemed in March 2009, £166.7m in June 2009, £132.6m in September 2009 and £104.8m in December 2009. At 31 December 2009 the value of the share in the Master Trust was £1,924.4m (2008: £2,495.1m).

(e) Aire Valley Mortgages 2007-2 plc

This SPV issued £1,156.3m of loan notes denominated in Euros and Sterling in November 2007 to purchase a £1,156.3m share in the Master Trust. £175.8m of loan notes were redeemed in October 2008, £5.9m in January 2009, £3.6m in April 2009 and £2.3m in July 2009. At 31 December 2009 the value of the share in the Master Trust was £968.7m (2008: £980.5m).

(f) Bradford & Bingley Warehousing No. 1 LLP

In June 2008, Bradford & Bingley Warehousing No. 1 LLP agreed a loan facility with Barclays Bank PLC of £1,000.0m with maturity in April 2012, and securitised assets of £1,826.0m. £85.2m of loan notes were redeemed in October 2008. £68.0m redeemed in January 2009, £47.1m in April 2009, £41.0m in July 2009 and £34.1m in October 2009. A start-up loan of £12.0m in the form of subordinated debt was provided by Bradford & Bingley plc. Securitised assets at 31 December 2009 were £1,512.9m (2008: £1,667.9m), loan balance £724.6m (2008: £914.8m) and subordinated debt £12.0m (2008: £12.0m).

(g) Aire Valley Mortgages 2008-1 plc

This SPV issued £2,900.0m of loan notes denominated in Euros and Sterling in July 2008 to purchase a £2,900.0m share in the Master Trust. At 31 December 2009 the value of the share in the Master Trust was £2,900.0m (2008: £2,900.0m).

(h) Bowler Finance plc

This SPV issued £4,450.0m of loan notes denominated in Sterling in July 2008 to purchase a £4,450.0m interest in mortgages. All of these loan notes were held by the Company. £80.2m were redeemed in September 2008, £137.0m in December 2008, £85.4m were redeemed in March 2009, £132.6m in June 2009, £71.3m in September 2009 and £58.9m in December 2009. At 31 December 2009 securitised assets were £3,885.8m (2008: £4,235.6m) and loan notes were £3,884.6m (2008: £4,232.8m). As described in note 45b, on 25 February 2010 Bowler Finance plc exercised its option to redeem at par all of the outstanding notes issued by it, and the security over the mortgage assets underlying the notes was released.

(i) Bradford & Bingley Covered Bonds LLP

The Euro 15,000.0m Covered Bond programme was launched in May 2004 with the issue of a Euro 2,000.0m note, which redeemed in May 2009. A covered bond is a full recourse debt instrument secured against a pool of eligible mortgages. Bradford & Bingley Covered Bonds LLP 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 may not fall below the value of the loan notes, and qualifying loans are taken into the partnership to ensure this.

The Covered Bond programme issued further series of loan notes:

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 May 2008 Euro 55.5m were bought back and cancelled.
In June 2006: CHF 300.0m with bullet maturity in June 2012 and CHF 250.0m with bullet maturity in June 2016. In December 2007 CHF 15.0m were bought back and cancelled, and in May 2008 CHF 14.9m were bought back and cancelled.
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. In October 2007 CHF 75.0m were bought back and cancelled, and in May 2008 CHF 128.2m were bought back and cancelled.
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 May 2008 Euro 311.4m were bought back and cancelled.

Notes to the Financial Statements

13. Securitised assets and secured funding (continued)

(i) Bradford & Bingley Covered Bonds LLP (continued)

In July 2007: CHF 200.0m with bullet maturity in July 2011. In October 2007 CHF 35.0m, in December 2007 CHF 15.0m and in May 2008 CHF 25.4m were bought back and cancelled.
In July 2007: CHF 200.0m with bullet maturity in July 2015. In October 2007 CHF 40.0m and in May 2008 CHF 36.2m were bought back and cancelled.
In July 2007: CHF 150.0m with bullet maturity in July 2027. In December 2007 CHF 20.0m and in May 2008 CHF 18.3m were bought back and cancelled.
In September 2007: GBP 500.0m with bullet maturity in September 2009 (redeemed in September 2009).
In October 2007: Euro 500.0m with bullet maturity in October 2008 (redeemed in October 2008) and Euro 100.0m with bullet maturity in October 2010.
In January 2008: GBP 500.0m with bullet maturity in October 2012.
In September 2008: GBP 1,800.0m with bullet maturity in April 2012 and GBP 143.0m with bullet maturity in September 2009 (£143.0m redeemed in September 2009).

At 31 December 2009 the funding of £6,604.1m (2008: £8,589.1m) was secured against £9,964.0m (2008: £11,013.3m) of mortgages.

In October 2008 it was announced that a 'step-up event' had occurred in relation to the Aire Valley Master Trust securitisation structure (the 'Master Trust'). A step-up event occurs where an issuer of notes under the Master Trust does not exercise its option to redeem any of its notes on their relevant step-up date pursuant to the terms and conditions of such notes. As a result of the occurrence of the step-up event, no new mortgage loans are permitted to be sold into the pool of securitised mortgage loans that underlie the notes issued under the Master Trust (being the 'Mortgage Pool').
In September 2009, as a result of (i) the low level of the constant prepayment rate affecting the Mortgage Pool and (ii) the occurrence of the step-up event, amounts due and payable under certain series of notes that fell to be redeemed in accordance with specified controlled amortisation schedules began to be repaid on a pass-through basis (such notes being the 'Affected Controlled Amortisation Notes'). Below is a list of the Affected Controlled Amortisation Notes:
(1) AVM2006-1 Series 1A;
(2) AVM2007-1 Series 1A1;
(3) AVM2007-1 Series 1A2; and
(4) AVM2007-1 Series 1A3.

14. Debt securities

	Group		Company	
	2009	2008	**2009**	2008
At 31 December	**£m**	£m	**£m**	£m
Investment securities issued by public bodies:				
- Government securities	**261.6**	980.0	**261.6**	980.0
Investment securities issued by other issuers:				
- Other debt securities	**2,294.3**	3,044.7	**10,007.5**	11,293.4
Total	**2,555.9**	4,024.7	**10,269.1**	12,273.4

Debt securities are categorised either as available-for-sale or as loans and receivables. Debt securities categorised as available-for-sale are carried at fair value, which is calculated through reference to a market price. Where no reliable market price exists, an assessment is made as to the value of the debt security, based on the net present value of the future expected cash flows. At 31 December 2009 all available-for-sale debt securities are valued by reference to a market price and no modelled valuations are used. As detailed in note 41a, the debt securities categorised as loans and receivables within the Company Balance Sheet were initially categorised as available-for-sale, but were recategorised as loans and receivables during the year because there is no active market in these assets and the Company intends to hold them until their maturity. These were recategorised using their fair value immediately prior to recategorisation, and subsequently have been carried on an amortised cost basis; their carrying amounts will accrete up to their redemption amount over their expected lives.

Where there are indicators of potential impairment (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 loss' line on the Income Statement.

Notes to the Financial Statements

14. 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	**2009 £m**	Aaa %	Aa %	A1 %	Baa1 to B3 %	Caa1 and below %
Cash and balances at central banks	**323.0**	100	-	-	-	-
Loans and advances to banks:						
- Reverse repos	**605.0**	100	-	-	-	-
- Bank and time deposits	**284.0**	22	16	51	11	-
- Cash and other collateral	**2,553.3**	20	42	38	-	-
Total loans and advances to banks	**3,442.3**	34	33	32	1	-
Debt securities:						
Liquidity portfolio:						
- UK Government securities	**261.6**	100	-	-	-	-
- Bank and supranational bonds	**956.5**	97	3	-	-	-
- UK and European Aaa mortgage backed securities	**889.7**	100	-	-	-	-
- Other asset backed securities	**85.3**	50	27	18	5	-
Total liquidity portfolio	**2,193.1**	97	2	1	-	-
Structured finance portfolio:						
- Principal protected notes	**328.4**	53	17	30	-	-
- Credit funds	**34.4**	-	-	57	43	-
Total structured investment portfolio	**362.8**	48	15	33	4	-
Total debt securities	**2,555.9**	90	4	5	1	-
Total wholesale assets	**6,321.2**	60	19	20	1	-

Group Wholesale assets At 31 December	2008 £m	Aaa %	Aa %	A1 %	Baa1 to B3 %	Caa1 and below %
Cash and balances at central banks	100.4	100	-	-	-	-
Loans and advances to banks:						
- Reverse repos	-	-	-	-	-	-
- Bank and time deposits	552.6	3	36	61	-	-
- Cash and other collateral	2,796.6	-	66	34	-	-
Total loans and advances to banks	3,349.2	-	57	43	-	-
Debt securities:						
Liquidity portfolio:						
- UK Government securities	980.0	100	-	-	-	-
- Bank and supranational bonds	1,379.2	81	19	-	-	-
- UK and European Aaa mortgage backed securities	1,009.9	100	-	-	-	-
- Other asset backed securities	183.4	48	35	13	4	-
Total liquidity portfolio	3,552.5	90	9	1	-	-
Structured finance portfolio:						
- Principal protected notes	428.2	64	17	19	-	-
- Credit funds	44.0	-	-	60	40	-
Total structured investment portfolio	472.2	58	15	23	4	-
Total debt securities	4,024.7	48	31	21	-	-
Total wholesale assets	7,474.3	49	32	19	-	-

Notes to the Financial Statements

14. Debt securities (continued)

Company Wholesale assets At 31 December	**2009 £m**	Aaa %	Aa %	A1 %	Baa1 to B3 %	Caa1 and below %
Cash and balances at central banks	**316.6**	100	-	-	-	-
Loans and advances to banks:						
- Reverse repos	**605.0**	100	-	-	-	-
- Bank and time deposits	**284.0**	22	16	51	11	-
- Cash and other collateral	**547.2**	-	86	14	-	-
Total loans and advances to banks	**1,436.2**	46	37	15	2	-
Debt securities:						
Liquidity portfolio:						
- UK Government securities	**261.6**	100	-	-	-	-
- Bank and supranational bonds	**956.5**	97	3	-	-	-
- UK and European Aaa mortgage backed securities	**8,488.5**	79	5	-	16	-
- Bonds to Group undertakings	**114.4**	100	-	-	-	-
- Other asset backed securities	**85.3**	50	27	18	5	-
Total liquidity portfolio	**9,906.3**	81	5	-	14	-
Structured finance portfolio:						
- Principal protected notes	**328.4**	53	17	30	-	-
- Credit funds	**34.4**	-	-	57	43	-
Total structured finance portfolio	**362.8**	48	15	33	4	-
Total debt securities	**10,269.1**	80	5	1	14	-
Total wholesale assets	**12,021.9**	76	9	3	12	-

Company Wholesale assets At 31 December	2008 £m	Aaa %	Aa %	A1 %	Baa1 to B3 %	Caa1 and below %
Cash and balances at central banks	100.4	100	-	-	-	-
Loans and advances to banks:						
- Reverse repos	-	-	-	-	-	-
- Bank and time deposits	552.6	3	36	61	-	-
- Cash and other collateral	828.2	-	51	49	-	-
Total loans and advances to banks	1,380.8	6	55	39	-	-
Debt securities:						
Liquidity portfolio:						
- UK Government securities	980.0	100	-	-	-	-
- Bank and supranational bonds	1,379.6	81	19	-	-	-
- UK and European Aaa mortgage backed securities	9,147.4	80	1	-	19	-
- Bonds to Group undertakings	111.1	100	-	-	-	-
- Other asset backed securities	183.1	48	35	13	4	-
Total liquidity portfolio	11,801.2	81	4	-	15	-
Structured finance portfolio:						
- Principal protected notes	428.2	64	17	19	-	-
- Credit funds	44.0	-	-	60	40	-
Total structured finance portfolio	472.2	58	15	23	4	-
Total debt securities	12,273.4	81	4	1	14	-
Total wholesale assets	13,754.6	73	8	6	13	-

Notes to the Financial Statements

14. Debt securities (continued)

Additional analysis of the underlying collateral within the structured finance portfolio by geographic region and by type of exposure is provided in the tables below:

Group Structured finance portfolio At 31 December 2009		**Analysis of investment by geographic region**					**Analysis of investment by type of asset**				
	£m	**UK %**	**Europe %**	**US %**	**Other %**	**Total %**	**Mortgage backed securities %**	**Asset backed securities %**	**Corporate loans %**	**Other %**	**Total %**
Principal protected notes	**328.4**	**10**	**42**	**45**	**3**	**100**	**-**	**2**	**74**	**24**	**100**
Credit funds	**34.4**	**29**	**58**	**3**	**10**	**100**	**-**	**-**	**84**	**16**	**100**
Total	**362.8**	**12**	**44**	**41**	**3**	**100**	**-**	**2**	**75**	**23**	**100**

Group Structured finance portfolio At 31 December 2008		Analysis of investment by geographic region					Analysis of investment by type of asset				
	£m	UK %	Europe %	US %	Other %	Total %	Mortgage backed securities %	Asset backed securities %	Corporate loans %	Other %	Total %
Principal protected notes	428.2	21	44	33	2	100	-	2	84	14	100
Credit funds	44.0	29	60	2	9	100	-	-	83	17	100
Total	472.2	21	46	30	3	100	-	2	83	15	100

Company Structured finance portfolio At 31 December 2009		**Analysis of investment by geographic region**					**Analysis of investment by type of asset**				
	£m	**UK %**	**Europe %**	**US %**	**Other %**	**Total %**	**Mortgage backed securities %**	**Asset backed securities %**	**Corporate loans %**	**Other %**	**Total %**
Principal protected notes	**328.4**	**10**	**42**	**45**	**3**	**100**	**-**	**2**	**74**	**24**	**100**
Credit funds	**34.4**	**29**	**58**	**3**	**10**	**100**	**-**	**-**	**84**	**16**	**100**
Total	**362.8**	**12**	**44**	**41**	**3**	**100**	**-**	**2**	**75**	**23**	**100**

Company Structured finance portfolio At 31 December 2008		Analysis of investment by geographic region					Analysis of investment by type of asset				
	£m	UK %	Europe %	US %	Other %	Total %	Mortgage backed securities %	Asset backed securities %	Corporate loans %	Other %	Total %
Principal protected notes	428.2	21	44	33	2	100	-	2	84	14	100
Credit funds	44.0	29	60	2	9	100	-	-	83	17	100
Total	472.2	21	46	30	3	100	-	-	83	15	100

The 2008 analysis of geographic region has been restated compared to that included in the 2008 Financial Statements, to better reflect the geographic location of the underlying assets.

15. Investment impairment loss

	2009		2008	
	Impairment charge	**Impairment balance**	Impairment charge	Impairment balance
Group At 31 December	**£m**	**£m**	£m	£m
Total liquidity portfolio	**40.1**	**45.7**	10.9	5.8
Structured investment portfolio:				
- Principal protected notes	**9.4**	**93.1**	84.2	84.7
- Collateralised debt obligations*	**-**	**70.9**	26.6	138.7
- Collateralised loan obligations*	**-**	**-**	1.8	-
- Structured investment vehicles*	**-**	**92.5**	47.9	103.0
- Credit funds	**43.8**	**60.7**	20.2	21.6
Total structured finance portfolio	**53.2**	**317.2**	180.7	348.0
Total debt securities	**93.3**	**362.9**	191.6	353.8

*These assets have been fully impaired.

Notes to the Financial Statements

16. Prepayments and accrued income

	Group		Company	
	2009	2008	**2009**	2008
At 31 December	**£m**	£m	**£m**	£m
Commissions receivable	**1.4**	3.4	**1.4**	3.6
Other	**10.1**	14.9	**5.1**	5.2
Total	**11.5**	18.3	**6.5**	8.8

17. Investments in Group undertakings

	2009	2008
Company	**£m**	£m
At 1 January	**1,244.7**	543.7
Investments	**-**	811.0
Disposals	**(8.5)**	(110.0)
Repayment of capital	**(199.0)**	-
At 31 December	**1,037.2**	1,244.7
Investments comprise:		
Shares	**234.7**	433.7
Loans	**802.5**	811.0
Total	**1,037.2**	1,244.7

During 2009, Bradford & Bingley Treasury Services (Ireland) repaid share capital of £199.0m. The Company also placed two subsidiary undertakings, Bradford and Bingley Funding No.2 Limited and Bradford and Bingley Funding No.4 Limited, into liquidation, and wrote off its investments of £6.4m and £2.1m in those companies respectively.

The Company's principal trading subsidiary undertakings at 31 December 2009 held directly or indirectly, all of which are fully consolidated into the Group Financial Statements, are listed below:

	Country of incorporation	Major activity	Class of shares held	Interest
Direct				
Bradford & Bingley Investments	England	Holding company	Ordinary	100%
Bradford & Bingley Treasury Services (Ireland)	England	Treasury activities	Ordinary	100%
Indirect				
Mortgage Express	England	Residential mortgage lending	Ordinary	100%

SPVs

The following entities are SPVs established in connection with the Group's securitisation and secured funding programmes (see note 13). The Company is a partner in Bradford & Bingley Warehousing No.1 LLP and Bradford & Bingley Covered Bonds LLP, and has no ownership interest in the other entities but they are regarded as subsidiaries as they are, in substance, controlled by the Company.

	Country of incorporation	Major activity
Aire Valley Mortgages 2004-1 plc	England	Debt issuance
Aire Valley Mortgages 2005-1 plc	England	Debt issuance
Aire Valley Mortgages 2006-1 plc	England	Debt issuance
Aire Valley Mortgages 2007-1 plc	England	Debt issuance
Aire Valley Mortgages 2007-2 plc	England	Debt issuance
Aire Valley Mortgages 2008-1 plc	England	Debt issuance
Bowler Finance plc	England	Debt issuance
Bradford & Bingley Warehousing No. 1 LLP	England	Mortgage funding
Bradford & Bingley Covered Bonds LLP	England	Mortgage funding

Bradford & Bingley Investments, Bradford & Bingley Treasury Services (Ireland) and Mortgage Express are all unlimited companies. No fair value is provided in respect of shares in Group undertakings as these shares do not have a quoted market price.

18. Other assets

	Group		Company	
	2009	2008	**2009**	2008
At 31 December	**£m**	£m	**£m**	£m
Other	-	2.7	-	1.4
Total	-	2.7	-	1.4

Notes to the Financial Statements

19. Deferred taxation

The net deferred taxation asset/(liability) is attributable to the following:

Group At 31 December	Assets		Liabilities		Net	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Change in accounting basis on adoption of IFRS	**10.3**	12.3	**(14.3)**	(16.8)	**(4.0)**	(4.5)
Cash flow hedges	**15.3**	57.7	**-**	-	**15.3**	57.7
Accelerated tax depreciation	**10.9**	5.7	**-**	-	**10.9**	5.7
Other (including available-for-sale reserve)	**259.0**	1.5	**(266.5)**	(299.2)	**(7.5)**	(297.7)
Employee benefits	**39.3**	19.2	**(10.2)**	(19.5)	**29.1**	(0.3)
Taxation value of losses carried forward	**62.1**	148.2	**-**	-	**62.1**	148.2
	396.9	244.6	**(291.0)**	(335.5)	**105.9**	(90.9)
Offset	**(291.0)**	(244.6)	**291.0**	244.6	**-**	-
Total	**105.9**	-	**-**	(90.9)	**105.9**	(90.9)

£35.5m (2008: £202.5m) of deferred tax assets have not been recognised, relating to unused tax losses of £126.7m (2008: 723.1m). £62.1m (2008: £148.2m) of deferred tax assets have been recognised in respect of tax losses carried forward; based upon detailed business plans, there will be sufficient taxable profits in future years to utilise the losses on which deferred tax has been recognised. The increase in 'other' items arises due to reclassification of deferred tax on losses previously recognised (£130.7m) and recognition of previously unrecognised losses (£158.3m) following agreement with HMRC over the use of losses incurred by the Company in 2008, the losses primarily having arisen on available-for-sale assets.

Company At 31 December	Assets		Liabilities		Net	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Change in accounting basis on adoption of IFRS	**6.2**	7.4	**(11.0)**	(12.9)	**(4.8)**	(5.5)
Cash flow hedges	**15.3**	57.7	**-**	-	**15.3**	57.7
Accelerated tax depreciation	**6.3**	2.2	**-**	-	**6.3**	2.2
Other (including available-for-sale reserve)	**259.8**	-	**-**	(1.7)	**259.8**	(1.7)
Employee benefits	**39.3**	19.2	**(10.2)**	(19.5)	**29.1**	(0.3)
Taxation value of losses carried forward	**-**	130.7	**-**	-	**-**	130.7
	326.9	217.2	**(21.2)**	(34.1)	**305.7**	183.1
Offset	**(21.2)**	(34.1)	**21.2**	34.1	**-**	-
Total	**305.7**	183.1	**-**	-	**305.7**	183.1

There are no deferred tax assets unrecognised (2008: £158.3m), relating to unused tax losses (2008: £565.4m). No deferred tax assets have been recognised in respect of tax losses carried forward (2008: £130.7m). The increase in 'other' items arises due to reclassification of deferred tax on losses previously recognised (£130.7m) and recognition of previously unrecognised losses (£158.3m) following agreement with HMRC over the use of losses incurred by the Company in 2008, the losses primarily having arisen on available-for-sale assets.

The movements in the Group's temporary differences during the year and previous year were as follows:

	At 1 January 2009 £m	**Recognised in income £m**	**Recognised in equity £m**	**At 31 December 2009 £m**
Change in accounting basis on adoption of IFRS	**(4.5)**	**0.5**	**-**	**(4.0)**
Cash flow hedges	**57.7**	**-**	**(42.4)**	**15.3**
Accelerated tax depreciation	**5.7**	**5.2**	**-**	**10.9**
Other (including available-for-sale reserve)	**(297.7)**	**0.2**	**290.0**	**(7.5)**
Employee benefits	**(0.3)**	**(0.1)**	**29.5**	**29.1**
Taxation value of losses carried forward	**148.2**	**44.6**	**(130.7)**	**62.1**
Total	**(90.9)**	**50.4**	**146.4**	**105.9**

	At 1 January 2008 £m	Recognised in income £m	Recognised in equity £m	At 31 December 2008 £m
Change in accounting basis on adoption of IFRS	(5.1)	0.6	-	(4.5)
Cash flow hedges	23.4	-	34.3	57.7
Accelerated tax depreciation	3.7	2.0	-	5.7
Other (including available-for-sale reserve)	(1.3)	(8.7)	(287.7)	(297.7)
Employee benefits	3.1	(8.4)	5.0	(0.3)
Taxation value of losses carried forward	-	17.5	130.7	148.2
Total	23.8	3.0	(117.7)	(90.9)

Notes to the Financial Statements

19. Deferred taxation (continued)

The movements in the Company's temporary differences during the year and previous year were as follows:

	At 1 January 2009 £m	Recognised in income £m	Recognised in equity £m	At 31 December 2009 £m
Change in accounting basis on adoption of IFRS	**(5.5)**	**0.7**	**-**	**(4.8)**
Cash flow hedges	**57.7**	**-**	**(42.4)**	**15.3**
Accelerated tax depreciation	**2.2**	**4.1**	**-**	**6.3**
Other (including available-for-sale reserve)	**(1.7)**	**(1.3)**	**262.8**	**259.8**
Employee benefits	**(0.3)**	**(0.1)**	**29.5**	**29.1**
Taxation value of losses carried forward	**130.7**	**-**	**(130.7)**	**-**
Total	**183.1**	**3.4**	**119.2**	**305.7**

	At 1 January 2008 £m	Recognised in income £m	Recognised in equity £m	At 31 December 2008 £m
Change in accounting basis on adoption of IFRS	(6.2)	0.7	-	(5.5)
Cash flow hedges	23.4	-	34.3	57.7
Accelerated tax depreciation	1.5	0.7	-	2.2
Other	-	(1.7)	-	(1.7)
Employee benefits	3.1	(8.4)	5.0	(0.3)
Taxation value of losses carried forward	-	-	130.7	130.7
Total	21.8	(8.7)	170.0	183.1

Deferred taxation appropriately reflects the change to the standard rate of UK corporation tax from 30% to 28% which became effective on 1 April 2008.

20. Property, plant and equipment

Group	**Land and buildings £m**	**Equipment, fixtures and vehicles £m**	**Total £m**
Cost			
At 1 January 2009	**29.8**	**63.1**	**92.9**
Additions	**-**	**0.9**	**0.9**
Disposals	**-**	**(12.6)**	**(12.6)**
At 31 December 2009	**29.8**	**51.4**	**81.2**
Depreciation			
At 1 January 2009	**17.6**	**58.2**	**75.8**
Depreciation charge for the year	**0.1**	**0.3**	**0.4**
Disposals	**-**	**(10.0)**	**(10.0)**
At 31 December 2009	**17.7**	**48.5**	**66.2**
Net book value			
At 1 January 2009	**12.2**	**4.9**	**17.1**
At 31 December 2009	**12.1**	**2.9**	**15.0**

Group	Land and buildings £m	Equipment, fixtures and vehicles £m	Total £m
Cost			
At 1 January 2008	94.6	107.7	202.3
Additions	0.1	16.9	17.0
Disposals to Abbey	(55.8)	(38.9)	(94.7)
Disposals – other	(5.3)	(17.7)	(23.0)
Written off	(3.8)	(4.9)	(8.7)
At 31 December 2008	29.8	63.1	92.9
Depreciation			
At 1 January 2008	28.1	67.7	95.8
Depreciation charge for the year	1.0	8.8	9.8
Impairment charge	15.0	25.5	40.5
Disposals to Abbey	(20.1)	(24.0)	(44.1)
Disposals – other	(2.6)	(14.9)	(17.5)
Written off	(3.8)	(4.9)	(8.7)
At 31 December 2008	17.6	58.2	75.8
Net book value			
At 1 January 2008	66.5	40.0	106.5
At 31 December 2008	12.2	4.9	17.1

Sale proceeds from other asset disposals were £2.6m (2008: £2.9m) resulting in a loss on sale of £nil (2008: £nil). Work in progress of £0.9m (2008: £nil) has been capitalised and is not being depreciated at the year-end. The additions relate to an IT investment programme to simplify the infrastructure and reduce ongoing costs. The programme is currently expected to complete in early 2011.

Notes to the Financial Statements

20. Property, plant and equipment (continued)	**Land and buildings**	**Equipment, fixtures and vehicles**	**Total**
Company	**£m**	**£m**	**£m**
Cost			
At 1 January 2009	**27.9**	**58.1**	**86.0**
Additions	**-**	**0.9**	**0.9**
Disposals	**-**	**(9.4)**	**(9.4)**
At 31 December 2009	**27.9**	**49.6**	**77.5**
Depreciation			
At 1 January 2009	**15.7**	**57.0**	**72.7**
Depreciation charge for the year	**0.1**	**0.3**	**0.4**
Disposals	**-**	**(9.4)**	**(9.4)**
At 31 December 2009	**15.8**	**47.9**	**63.7**
Net book value			
At 1 January 2009	**12.2**	**1.1**	**13.3**
At 31 December 2009	**12.1**	**1.7**	**13.8**

Company	Land and buildings £m	Equipment, fixtures and vehicles £m	Total £m
Cost			
At 1 January 2008	88.0	99.5	187.5
Additions	0.1	14.8	14.9
Disposals to Abbey	(54.8)	(37.7)	(92.5)
Disposals – other	(5.3)	(14.3)	(19.6)
Written off	(0.1)	(4.2)	(4.3)
At 31 December 2008	27.9	58.1	86.0
Depreciation			
At 1 January 2008	27.0	64.7	91.7
Depreciation charge for the year	0.7	8.7	9.4
Impairment charge	10.6	25.1	35.7
Disposals to Abbey	(19.9)	(23.0)	(42.9)
Disposals – other	(2.6)	(14.3)	(16.9)
Written off	(0.1)	(4.2)	(4.3)
At 31 December 2008	15.7	57.0	72.7
Net book value			
At 1 January 2008	61.0	34.8	95.8
At 31 December 2008	12.2	1.1	13.3

Sale proceeds from other asset disposals were £nil (2008: £0.1m) resulting in a loss on sale of £nil (2008: £nil).

Notes to the Financial Statements

21. Intangible assets

	Group	Company
	£m	£m
Cost		
At 1 January 2009	**46.6**	**35.3**
Disposals	**(3.4)**	**(3.4)**
At 31 December 2009	**43.2**	**31.9**
Amortisation		
At 1 January 2009	**46.6**	**35.3**
Disposals	**(3.4)**	**(3.4)**
At 31 December 2009	**43.2**	**31.9**
Net book value		
At 1 January 2009	-	-
At 31 December 2009	-	-

	Group £m	Company £m
Cost		
At 1 January 2008	110.0	57.7
Additions	6.9	4.3
Disposals to Abbey	(7.4)	(7.1)
Disposals – other	(13.2)	(12.7)
Written off	(49.7)	(6.9)
At 31 December 2008	46.6	35.3
Amortisation		
At 1 January 2008	69.0	45.1
Amortisation charge for the year	9.5	3.9
Impairment charge	34.8	9.4
Disposals to Abbey	(3.8)	(3.5)
Disposals – other	(13.2)	(12.7)
Written off	(49.7)	(6.9)
At 31 December 2008	46.6	35.3
Net book value		
At 1 January 2008	41.0	12.6
At 31 December 2008	-	-

Intangible assets comprise capitalised software.

22. Deposits by banks

	Group		Company	
	2009	2008	**2009**	2008
At 31 December	**£m**	£m	**£m**	£m
Items in the course of transmission	**29.1**	77.3	**27.7**	76.0
Other amounts due to banks	**2,780.4**	9,241.2	**1,064.9**	8,067.9
Total	**2,809.5**	9,318.5	**1,092.6**	8,143.9

23. Other deposits

	Group		Company	
	2009	2008	**2009**	2008
At 31 December	**£m**	£m	**£m**	£m
Amounts due to subsidiary undertakings	**-**	-	**27,654.3**	29,509.6
Cash collateral received	**457.5**	641.6	**-**	-
Amounts due to other depositors	**-**	186.5	**603.1**	775.8
Total	**457.5**	828.1	**28,257.4**	30,285.4

Notes to the Financial Statements

24. HM Treasury Working Capital Facility

Following the Transfer, the Bank of England provided the Company with a Working Capital Facility. This was subsequently replaced by the WCF provided by HM Treasury, on which the Company pays interest. At 31 December 2009 the Company had drawn £8,537.8m (2008: £2,275.7m) of this facility. HM Treasury has indicated that its current intention is to continue to fund the Company as a going concern, and to enable the Company to meet its debts as and when they fall due, until at least 30 April 2011.

HM Treasury has indicated that it expects the WCF to be repaid out of the cash flows generated by the Company and the Group during their wind-down. These cash flows will principally comprise interest and redemptions arising on loans to customers. The redemption profile of loans to customers is uncertain; many of these loans have contractual maturities of 25 years or more from the date of advance, but experience has been that most loans to customers redeem earlier than their contractual maturity dates. Consequently, the timing of the repayment of the WCF is uncertain.

On 25 January 2010 the EC announced that it had approved, under the EU state aid rules, the financing facilities and guarantee arrangements provided by HM Treasury.

25. Statutory Debt

Following the Transfer and the sale of the savings related assets and liabilities on 29 September 2008 the FSCS made available a cash amount to Abbey representing the balance of the liabilities transferred. As a consequence, a debt has been created repayable by the Company of £18,416.2m referred to as the Statutory Debt. This liability bears no interest.

It is expected that the Statutory Debt will be repaid out of the cash flows generated by the Company and the Group during their wind-down. These cash flows will principally comprise interest and redemptions arising on loans to customers. The redemption profile of loans to customers is uncertain; many of these loans have contractual maturities of 25 years or more from the date of advance, but experience has been that most loans to customers redeem earlier than their contractual maturity dates. Consequently, the timing of the repayment of the Statutory Debt is uncertain.

On 25 January 2010 the EC announced that it had approved, under the EU state aid rules, the financing facilities and guarantee arrangements provided by HM Treasury.

26. Debt securities in issue

	Securitised notes	Covered Bonds	Other debt securities in issue	Total
Group				
2009	**£m**	**£m**	**£m**	**£m**
Balance at 1 January 2009	**8,264.6**	**8,004.0**	**4,397.7**	**20,666.3**
Repayments	**(855.5)**	**(1,342.0)**	**(1,295.5)**	**(3,493.0)**
Exchange rate movements and fair value adjustments	**(1,387.2)**	**(893.8)**	**241.3**	**(2,039.7)**
Balance at 31 December 2009	**6,021.9**	**5,768.2**	**3,343.5**	**15,133.6**
2008	Securitised notes	Covered Bonds	Other debt securities in issue	Total
	£m	£m	£m	£m
Balance at 1 January 2008	8,162.0	6,758.8	7,387.3	22,308.1
Issuances	1,000.0	-	-	1,000.0
Repayments	(2,014.6)	(692.1)	(5,299.4)	(8,006.1)
Exchange rate movements and fair value adjustments	1,117.2	1,937.3	2,309.8	5,364.3
Balance at 31 December 2008	8,264.6	8,004.0	4,397.7	20,666.3

Company	**Securitised notes**	**Covered Bonds**	**Other debt securities in issue**	**Total**
2009	**£m**	**£m**	**£m**	**£m**
Balance at 1 January 2009	**-**	**8,121.9**	**5,242.1**	**13,364.0**
Repayments	**-**	**(1,342.0)**	**(1,295.5)**	**(2,637.5)**
Exchange rate movements and fair value adjustments	**-**	**(1,011.7)**	**(603.1)**	**(1,614.8)**
Balance at 31 December 2009	**-**	**5,768.2**	**3,343.5**	**9,111.7**
2008	Securitised notes	Covered Bonds	Other debt securities in issue	Total
	£m	£m	£m	£m
Balance at 1 January 2008	-	6,909.1	7,500.0	14,409.1
Repayments	-	(692.1)	(3,300.0)	(3,992.1)
Exchange rate movements and fair value adjustments	-	1,904.9	1,042.1	2,947.0
Balance at 31 December 2008	-	8,121.9	5,242.1	13,364.0

The Group and Company issue debt securities to securitise loans and advances to customers through SPVs as described in note 13. These debt securities are included in the amounts above. Certain debt securities in issue including those issued through SPVs are subject to fair value hedge designation, and the carrying values of these instruments are adjusted to reflect the fair value of the risks being hedged.

At the time of the Transfer, HM Treasury provided a guarantee with regard to certain wholesale borrowings existing at the time of the Transfer. The Company pays a fee for this guarantee. This guarantee was subject to approval by the EC under the EU State aid rules. As described in note 45a, EC approval was announced on 25 January 2010.

Notes to the Financial Statements

27. Total equity and liabilities

At 31 December	Group 2009 Balance £m	Group 2009 %	Group 2008 Balance £m	Group 2008 %	Company 2009 Balance £m	Company 2009 %	Company 2008 Balance £m	Company 2008 %
Statutory Debt	**18,416.2**	**37**	18,413.9	33	**18,416.2**	**27**	18,413.9	24
HM Treasury Working Capital Facility	**8,537.8**	**17**	2,275.7	4	**8,537.8**	**12**	2,275.7	3
Debt securities in issue:								
- Wholesale	**3,343.5**	**7**	4,397.7	8	**3,343.5**	**5**	5,242.1	7
- Securitised	**6,021.9**	**12**	8,264.6	15	**-**	**-**	-	-
- Covered Bonds	**5,768.2**	**12**	8,004.0	14	**5,768.2**	**8**	8,121.9	11
Other wholesale funding	**3,267.0**	**7**	10,146.6	18	**1,695.7**	**2**	8,919.7	12
Interest-bearing capital	**1,554.5**	**3**	1,617.1	3	**1,629.5**	**2**	1,691.6	2
Amounts due to subsidiary undertakings	**-**	**-**	-	-	**27,654.3**	**41**	29,509.6	39
Share capital and reserves	**1,394.1**	**3**	1,158.1	2	**755.5**	**1**	347.2	-
Other	**1,091.4**	**2**	1,644.9	3	**1,124.6**	**2**	1,602.5	2
Total	**49,394.6**	**100**	55,922.6	100	**68,925.3**	**100**	76,124.2	100

28. Other liabilities

At 31 December	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Surplus conversion shares	**14.9**	14.9	**14.9**	14.9
Other creditors	**73.3**	65.8	**65.5**	51.3
Total	**88.2**	80.7	**80.4**	66.2

29. Accruals and deferred income

At 31 December	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Accrued interest on subordinated liabilities (see note 32)	**84.8**	31.7	**93.2**	37.4
Accrued interest on other capital instruments (see note 33)	**5.7**	5.7	**-**	-
Deferred income	**1.3**	1.7	**1.3**	1.7
Other	**27.5**	44.5	**25.3**	45.7
Total	**119.3**	83.6	**119.8**	84.8

Notes to the Financial Statements

30. Post-retirement benefit obligations

(a) Pension schemes

The Group operated a defined benefit staff pension scheme, the Bradford & Bingley Staff Pension Scheme ('the principal scheme'), which was administered by trustees. On 31 December 2009 the scheme was closed to future service accrual and all members became deferred members and were given the option to transfer to the Group defined contribution scheme from 1 January 2010. The funds are independent from those of the Group. The normal pension age of employees in the scheme is 65.

The Group also operates a defined contribution scheme, the Bradford & Bingley Group Pension Plan. The funds of this scheme are independent from those of the Group. The Group and Company had no liabilities or prepayments associated with the defined contribution scheme at 31 December 2009 (2008: £nil). The cost in the year to the Group of the defined contribution scheme was £0.7m (2008: £1.7m) and the cost to the Company was £0.4m (2008: £1.4m).

(b) Other post-retirement benefits

The Group provides healthcare benefits to some of its pensioners. The healthcare benefits are provided through a post-retirement medical scheme into which the Company contributes 100% towards the cost of providing medical expense benefits for members who retired before 1 January 1996 and 50% for members who retired after this date. The total number of members of the scheme as at 31 December 2009 was 393 (2008: 411). Private medical costs are assessed in accordance with the advice of a qualified actuary.

(c) Accounting treatment

The Group accounts for post-retirement benefit costs in accordance with IAS 19 and IFRIC 14. The full net actuarial deficit is carried on the Group and Company Balance Sheets, and actuarial gains and losses are taken to Group and Company retained earnings rather than being charged or credited in the Income Statement. Any net defined benefit asset is recognised to the extent to which the economic benefits are available to the Group without any conditions outside the direct control of the Group having to be satisfied. The actuarial loss recognised in the Group and Company retained earnings during the year was £105.0m (2008: £17.8m gain).

More than one employing Group entity contributes to the post-retirement benefit schemes. As there is no contractual agreement or stated policy for charging the net defined benefit cost to individual Group entities, the net defined benefit cost is recognised in the Financial Statements of the Company (being the sponsoring entity). Other individual Group entities, in their individual Financial Statements, recognise a cost equal to their contributions payable for the period.

(d) Employee benefit obligations

The amounts carried in the Group and Company Balance Sheets are as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Present value of funded obligations	**615.1**	480.5	**7.8**	9.2	**622.9**	489.7
Fair value of plan assets	**(525.2)**	(485.3)	**-**	-	**(525.2)**	(485.3)
IFRIC 14 restriction	**-**	4.8	**-**	-	**-**	4.8
Net liability	**89.9**	-	**7.8**	9.2	**97.7**	9.2
Amounts carried on the Balance Sheet:						
- Liabilities	**89.9**	-	**7.8**	9.2	**97.7**	9.2

The amounts recognised in the Group Income Statement were as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Current service cost	**1.6**	4.8	**0.1**	0.1	**1.7**	4.9
Interest on plan obligations	**30.7**	34.5	**0.5**	0.6	**31.2**	35.1
Expected return on plan assets	**(28.1)**	(37.6)	**-**	-	**(28.1)**	(37.6)
	4.2	1.7	**0.6**	0.7	**4.8**	2.4
Gain on curtailment (i)	**(13.4)**	(22.3)	**-**	(0.8)	**(13.4)**	(23.1)
Total	**(9.2)**	(20.6)	**0.6**	(0.1)	**(8.6)**	(20.7)

All amounts above have also been recognised in the Company Income Statement with the exception of £0.8m (2008: £1.2m) of the current service cost which has been recognised within other Group companies.

The actual return on defined benefit plan assets for the year was £49.9m (2008: £78.1m).

Notes to the Financial Statements

30. Post-retirement benefit obligations (continued)

(d) Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligations were as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Opening defined benefit obligations	**480.5**	586.8	**9.2**	11.0	**489.7**	597.8
Current service cost	**1.6**	4.8	**0.1**	0.1	**1.7**	4.9
Contributions by employees	**0.3**	0.8	**-**	-	**0.3**	0.8
Interest on plan obligations	**30.7**	34.5	**0.5**	0.6	**31.2**	35.1
Actuarial loss/(gain)	**132.6**	(101.5)	**(1.4)**	(1.3)	**131.2**	(102.8)
Gain on curtailment (i)	**(13.4)**	(22.3)	**-**	(0.8)	**(13.4)**	(23.1)
Obligation transfer (ii)	**-**	(3.9)	**-**	-	**-**	(3.9)
Benefits paid	**(17.2)**	(18.7)	**(0.6)**	(0.4)	**(17.8)**	(19.1)
Closing defined benefit obligations	**615.1**	480.5	**7.8**	9.2	**622.9**	489.7

Changes in the fair value of plan assets were as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Opening fair value of plan assets	**485.3**	575.8	**-**	-	**485.3**	575.8
Expected return on plan assets	**28.1**	37.6	**-**	-	**28.1**	37.6
Contributions by employing entities	**7.3**	9.3	**0.6**	0.4	**7.9**	9.7
Contributions by employees	**0.3**	0.8	**-**	-	**0.3**	0.8
Actuarial gain/(loss)	**21.3**	(115.7)	**-**	-	**21.3**	(115.7)
Asset transfer (ii)	**-**	(4.0)	**-**	-	**-**	(4.0)
Benefits paid	**(17.1)**	(18.5)	**(0.6)**	(0.4)	**(17.7)**	(18.9)
Closing fair value of plan assets	**525.2**	485.3	**-**	-	**525.2**	485.3

(i) Gain on curtailment

As of 31 December 2009 the scheme was closed to future service accrual and all members became deferred members and were given the option to transfer to the Group defined contribution scheme from 1 January 2010. The curtailment gain arising as a result of this event was £13.4m. Employees who transferred to Abbey as a consequence of the sale of the savings business on 29 September 2008 and who were members of the defined benefit scheme became deferred members as of the date of transfer. The curtailment gain as a result of this event was £23.1m, and was included in the Group Income Statement within 'gain on sale of assets and liabilities' as described in note 2. Curtailment gains have been calculated in accordance with IAS 19.

(ii) Transfer of obligations and assets

Bradford & Bingley International Limited was sold to Abbey on 29 September 2008, and all pension obligations and assets relating to the employees of Bradford & Bingley International Limited were transferred to Abbey with effect from that date.

The Group expects to contribute £5.0m to its defined benefit pension plans in 2010.

The major categories of plan assets as a percentage of total plan assets at 31 December were as follows:

	2009	2008
Equities	**37%**	34%
Property	**7%**	10%
Bonds	**33%**	25%
Gilts	**12%**	13%
Cash and other	**11%**	18%
Total	**100%**	100%

Notes to the Financial Statements

30. Post-retirement benefit obligations (continued)

(d) Employee benefit obligations (continued)

The principal actuarial assumptions (expressed as weighted averages) were as follows:

	2009	2008
To determine benefit obligations		
Discount rate at 31 December	**5.7%**	6.3%
Future pension increases	**3.5%**	3.0%
Rate of salary increase	**5.5%**	5.0%
To determine the net pension cost		
Expected return on plan assets	**6.1%**	6.8%
Discount rate	**6.4%**	6.3%
Rate of salary increase	**5.0%**	5.4%
For post-retirement medical plan		
Discount rate	**5.7%**	6.3%
Inflation	**3.5%**	3.0%
Medical cost trend for duration of liability	**4.5%**	6.0%

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 table below shows the life expectancy assumptions from age 60 (based on a 1945 year of birth for retired members and 1965 for non-retired members):

	2009		2008	
	Retired members	Non-retired members	Retired members	Non-retired members
Male	**26.6**	**28.8**	24.7	25.9
Female	**29.5**	**31.7**	27.7	28.7

Sensitivity

The following table illustrates the sensitivity of the pension scheme defined benefit obligation to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	Change in assumption	Impact on benefit obligation
Discount rate	Decrease by 0.5%	Increase by 11%
Inflation	Increase by 0.5%	Increase by 11%
Mortality	Decrease by 1 year	Increase by 2%

If the assumptions were to change by the same amount in the opposite direction to those illustrated, the benefit obligation would decrease 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:

	2009 £m	2008 £m
Effect on the aggregate of service cost and interest cost	**0.1**	0.1
Effect on defined benefit obligations	**1.1**	1.5

Notes to the Financial Statements

31. Provisions

Group and Company	Empty leasehold premises £m	Compensation claims £m	Restructuring costs £m	Total £m
At 1 January 2009	**6.1**	**25.5**	**52.0**	**83.6**
Charged in the year	**1.3**	**3.8**	**13.3**	**18.4**
Released in the year	**-**	**-**	**(8.4)**	**(8.4)**
Utilised in the year	**(0.7)**	**(5.5)**	**(34.6)**	**(40.8)**
At 31 December 2009	**6.7**	**23.8**	**22.3**	**52.8**

Group and Company	Empty leasehold premises £m	Compensation claims £m	Restructuring costs £m	Total £m
At 1 January 2008	0.9	50.7	8.1	59.7
Charged in the year	5.5	-	69.1	74.6
Released in the year	-	(20.0)	-	(20.0)
Utilised in the year	(0.3)	(5.2)	(25.2)	(30.7)
At 31 December 2008	6.1	25.5	52.0	83.6

Empty leasehold premises
The empty leasehold premises provision relates to properties which, as at the Balance Sheet date, were no longer used by the business but were subject to a lease agreement. The rental payments are due to be made during the period 2010 to 2017.

Compensation claims
Compensation claims relate to potential payments to customers relating to endowment and other products sold in the past by the Group's independent advisory business. This business was sold in December 2004 following a strategic review. The provision is calculated on the basis of a reasonable estimate of the size and expected timing of claims. It is not possible to give a precise indication of the timing or amount of future payments as external factors such as the performance of the stock market and market agitation could have a significant impact.

Restructuring costs
Restructuring costs were incurred as a consequence of certain strategic changes made during 2008 and include employee contract termination costs. In 2009 a further £13.3m was charged to the provision, following improved estimates of costs expected to be incurred as a result of the Transfer. £8.4m was also released during 2009 due to improved estimates of other costs. The provision represents amounts expected to be paid in 2010 and 2011.

Notes to the Financial Statements

32. Subordinated liabilities

At 31 December	Initial interest rate	First due or callable	Transfer Order classification	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Dated securities:							
- Subordinated notes	7.625%	2010	Dated	**124.8**	131.1	**124.8**	131.1
- Fixed rate step-up subordinated notes	5.500%	2018	Dated	**266.6**	269.0	**266.6**	269.0
- Fixed rate step-up subordinated notes	5.750%	2022	Dated	**213.8**	224.4	**213.8**	224.4
- Subordinated notes	6.625%	2023	Dated	**127.8**	130.2	**127.8**	130.2
- Subordinated notes	LIBOR + 1.300%	2054	Dated	**-**	-	**150.0**	149.7
				733.0	754.7	**883.0**	904.4
Callable perpetual securities:							
- Perpetual subordinated notes	5.625%	2013	Undated	**261.5**	266.1	**261.5**	266.1
- Perpetual subordinated notes	6.000%	2019	Undated	**209.7**	222.9	**209.7**	222.9
- Perpetual subordinated notes	6.462%	2032	Undated	**-**	-	**170.3**	193.2
				471.2	489.0	**641.5**	682.2
Undated perpetual securities:							
- Perpetual subordinated bonds	13.000%	Perpetual	Undated	**55.0**	55.0	**55.0**	55.0
- Perpetual subordinated bonds	11.625%	Perpetual	Undated	**50.0**	50.0	**50.0**	50.0
				105.0	105.0	**105.0**	105.0
Total subordinated liabilities				**1,309.2**	1,348.7	**1,629.5**	1,691.6

The subordinated liabilities are all denominated in sterling.

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. Accrued interest is carried within accruals and deferred income (see note 29).

As described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities as listed in the table above during the period prior to the date on which it repays in full the Statutory Debt described in note 25.

The £125.0m subordinated notes due 2010 pay interest at a rate of 7.625% per annum annually on 16 February until their maturity. At the November 2009 Board meeting the Directors decided to defer the interest and principal payments due on 16 February 2010, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. Interest continues to accrue on these notes, and on the amount of deferred interest, at a rate of 7.625% per annum.

The £250.0m fixed rate/floating rate callable step-up subordinated notes due 2018 pay interest at a rate of 5.500% per annum annually on 15 January up to but excluding 15 January 2013 when the Company may either redeem them (on that date or any subsequent interest payment date, subject to obtaining FSA consent) or pay interest at a rate of 0.830% above 3 month GBP LIBOR until redemption. At the November 2009 Board meeting the Directors decided to defer the interest payment due on 15 January 2010, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. Interest will accrue on the amount of deferred interest at the same rate as it accrues on the principal.

The £200.0m fixed rate step-up subordinated notes due 2022 pay interest at a rate of 5.750% per annum annually on 12 December up to but excluding 12 December 2017 when the Company may either redeem them or pay interest at a rate of 2.000% above the relevant 5 year benchmark gilt rate until redemption. At the October 2009 Board meeting the Directors decided to defer the interest payment due on 12 December 2009, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. Interest will accrue on the amount of deferred interest at the same rate as it accrues on the principal.

The £125.0m subordinated notes due 2023 pay interest at a rate of 6.625% per annum annually on 16 June until their maturity. At the May 2009 Board meeting the Directors decided to defer the interest payment due on 16 June 2009, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. Interest will accrue on the amount of deferred interest at the same rate as it accrues on the principal.

The £150.0m floating rate dated subordinated notes due 2054 (the '2054 Notes') are currently held by Bradford & Bingley Capital Funding II L.P. These notes pay interest quarterly on 31 March, 30 June, 30 September and 31 December at a rate of 1.300% above 3 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 until maturity, subject to obtaining FSA consent. At the May, July and November 2009 Board meetings the Directors decided to defer the interest payments due on 30 June, 30 September and 31 December 2009, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. Interest will accrue on the amount of deferred interest at the same rate as it accrues on the principal. As a result of the deferral of interest payments, certain income distributions from Bradford & Bingley Capital Funding II L.P. were not and will not be paid (see note 33).

The £250.0m fixed rate step-up undated subordinated notes pay interest at a rate of 5.625% per annum annually on 20 December up to but excluding 20 December 2013 and thereafter at 2.230% above the relevant 5 year benchmark gilt rate, and can be redeemed at the option of the Company on 20 December 2013 and on each fifth anniversary thereafter. At the October 2009 Board meeting the Directors decided to defer the interest payment due on 20 December 2009, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. No interest will accrue on the deferred interest.

Notes to the Financial Statements

32. Subordinated liabilities (continued)

The £200.0m perpetual subordinated callable step-up notes due 2019 pay interest at a rate of 6.000% per annum annually on 10 December up to but excluding 10 December 2019 and thereafter at 1.930% above the relevant 5 year benchmark gilt rate, and can be redeemed at the option of the Company, subject to obtaining FSA consent, on 10 December 2019 and on each fifth anniversary thereafter. At the September 2009 Board meeting the Directors decided to defer the interest payment due on 10 December 2009, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. No interest will accrue on the deferred interest.

The £150.0m undated subordinated notes are currently held by Bradford & Bingley Capital Funding L.P. These notes pay interest at a rate of 6.462% annually on 2 June up to but excluding 2 June 2032 and thereafter at 2.300% above the relevant 5 year benchmark gilt rate and can be redeemed at the option of the Company on 2 June 2032 and on each fifth anniversary thereafter subject to obtaining FSA consent. The notes can also be redeemed on other dates, subject to obtaining FSA consent, if the Company pays an additional makewhole amount calculated in accordance with the terms of the document. As described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. No interest will accrue on deferred interest. As described in note 33, the Company has provided a subordinated guarantee to holders of securities issued by Bradford & Bingley Capital Funding L.P.

The £55.0m 13.000% perpetual subordinated bonds pay interest six-monthly on 7 April and 7 October each year, and have no maturity date. At the July 2009 Board meeting the Directors decided to defer the interest payment due on 7 October 2009, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. No interest will accrue on the deferred interest.

The £50.0m 11.625% perpetual subordinated bonds pay interest six-monthly on 20 January and 20 July each year, and have no maturity date. At the May 2009 and November 2009 Board meetings the Directors decided to defer the interest payments due on 20 July 2009 and 20 January 2010 respectively, and, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities, including these notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25. No interest will accrue on the deferred interest.

Interest incurred by the Group in 2009 with respect to subordinated liabilities was £82.1m (2008: £82.1m) and by the Company was £96.1m (2008: £102.9m).

None of the subordinated liabilities can be repaid at the Company's option, except as stated above. The rights of holders of subordinated debt, including perpetual subordinated bonds, are subordinated to the claims of all depositors and senior creditors as regards the principal and interest thereon.

The Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008 modified the rights of the holders of the Company's dated subordinated notes such that a non-payment of any principal due in respect of a dated subordinated note shall not constitute an event of default under such note. Under the terms of the Bradford & Bingley plc Transfer of Securities and Property etc. (Amendment) Order 2009, which came into force on 20 February 2009, principal and interest shall not become due on any dated subordinated note until either the Company gives notice that it will become due or the Company has satisfied in full its liability to the FSCS under article 30(1) of the Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008 (the Statutory Debt described in note 25). As described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities during the period prior to the date on which it repays in full the Statutory Debt.

Notes to the Financial Statements

33. Other capital instruments

	Group 2009	Group 2008
At 31 December	**£m**	£m
Perpetual preferred securities	**170.3**	193.4
Limited Partnership Share	**75.0**	75.0
Total	**245.3**	268.4

The other capital instruments are all denominated in sterling.

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. Accrued interest is carried within accruals and deferred income (see note 29).

On 29 May 2002, £150.0m (£148.5m net of expenses) 6.462% guaranteed, non-voting, non-cumulative, perpetual preferred securities, Series A, were issued by Bradford & Bingley Capital Funding L.P., a Jersey limited partnership. These securities are not subject to any mandatory redemption provisions; they are redeemable by the General Partner at its option on 2 June 2032 and on each fifth anniversary thereafter (subject to certain conditions being satisfied, including FSA consent). These securities have a fixed coupon and, if they are not redeemed in 2032, the coupon will be reset at a rate equal to the sum of the relevant 5 year benchmark gilt rate plus a margin of 2.300% per annum. At the time the transaction was entered into in May 2002, the Company provided a subordinated guarantee to the holders of these securities whereby, if Bradford & Bingley Capital Funding L.P. fails to make a distribution to the holders of the securities when due, then the Company will be obliged to make such payment, unless such payment would exceed the Company's adjusted distributable reserves (as calculated under the terms of the documents) or would cause a breach of capital adequacy requirements then applicable to the Company. As described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it intends to continue to make payments in full under this guarantee, subject to its terms. Interest incurred by the Group in 2009 in respect of these securities was £9.7m (2008: £9.7m).

On 23 March 2005, Bradford & Bingley Capital Funding II L.P., a limited partnership incorporated under the UK Limited Partnership Act 1907, issued £150.0m limited partnership interests. £75.0m of these limited partnership interests are currently held by Mortgage Express (a Group undertaking), with the balance being held by Bradford & Bingley International Limited (which is not a Group undertaking) being the Limited Partnership Share. Bradford & Bingley International Limited was sold to Abbey on 29 September 2008. Interest distributions are payable on the limited partnership interests at a rate of 1.300% above 3 month GBP LIBOR on 31 March, 30 June, 30 September and 31 December, and are non-cumulative. Interest distributions will not fall due if such payment would exceed the Company's adjusted distributable reserves (as calculated under the terms of the documents), or would cause a breach of capital adequacy requirements then applicable to the Company, or the limited partnership does not have legally available resources to make such payment. The limited partnership interests are redeemable at the option of the Company (subject to certain conditions being satisfied, including FSA consent) on 31 March 2015 and on each interest payment date thereafter. As a result of the deferral of the 30 June 2009, 30 September 2009 and 31 December 2009 interest payments on the 2054 Notes as described in note 32, interest distributions due on the limited partnership interests on those dates were not and will not be paid. Furthermore, as described in note 45a, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities as listed in the table in note 32, including the 2054 Notes, during the period prior to the date on which it repays in full the Statutory Debt described in note 25, with the result that interest distributions due on the limited partnership interests which would otherwise fall due during this period will also not be paid. Interest incurred by the Group in 2009 in respect of the limited partnership share was £0.7m (2008: £0.8m).

34. Share capital

Group and Company ordinary shares of 25p each:	2009 Number of shares (m)	2008 Number of shares (m)	2009 £m	2008 £m
Ordinary shares issued and fully paid at 1 January	**1,445.3**	617.7	**361.3**	154.4
Ordinary shares issued during the year	**-**	827.6	**-**	206.9
Ordinary shares issued and fully paid at 31 December	**1,445.3**	1,445.3	**361.3**	361.3

In accordance with The Companies Act 2006, the Company no longer has 'authorised capital' other than its issued capital.

The Company has one class of shares: ordinary shares of 25p each, ranking equally in respect of rights attaching to voting, dividends and in the event of a winding-up. As a result of the Transfer described in note 2 all share options were extinguished on 29 September 2008.

In July 2008 827,670,240 shares were issued, raising £400.9m net of expenses.

Notes to the Financial Statements

35. Share-based payments

As a result of the Transfer on 29 September 2008, all of the Group's share schemes were extinguished as of that date.
The amount recognised in staff costs for share-based payment transactions with employees may be summarised as follows:

	Group
	2008 £m
Sharesave Scheme	0.1
Employees' Restricted Share Bonus Plan	0.1
Executive Incentive Plan	(2.6)
	(2.4)
Accelerated charge due to extinguishment	4.1
Total	1.7

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

The accelerated charge of £4.1m in 2008 represented all previously unexpensed costs in respect of share schemes at the point of extinguishment, and was charged to restructuring costs in respect of the 'gain on sale of assets and liabilities' (see note 2).

36. Operating lease commitments

	Group and Company	
	2009	2008
At 31 December	**£m**	£m
The amounts of rentals payable under non-cancellable operating leases are as follows:		
- Payable in less than one year	**1.6**	1.0
- Payable in between one and five years	**4.1**	5.5
- Payable after more than five years	**0.3**	6.9
Total payable	**6.0**	13.4

These operating leases relate to land and buildings.

37. Other commitments

	Group		Company	
	2009	2008	**2009**	2008
At 31 December	**£m**	£m	**£m**	£m
Irrevocable undrawn loan facilities	**1,611.9**	1,750.4	**42.4**	37.5
Capital expenditure contracted but not provided for	**0.3**	0.3	**0.3**	0.3

The Group's irrevocable undrawn loan facilities include lifetime mortgages of £1,507.3m (2008: £1,632.0m) for which the commitment reflects an estimate of the interest expected to roll up on the loans until redemption, which occurs on vacation of the property. The lifetime mortgage product involves the advance of a lump sum, on which interest then accrues but is not payable until the loan is redeemed. There is no commitment to advance further cash in respect of these loans. The loan advance is accounted for in the same way as other loans to customers. The interest is accrued for as it arises.

The Group has no further commitment to purchase mortgage portfolios (31 December 2008 commitment: maximum £310.0m).

The Company has provided a number of financial guarantees to other Group companies. As at 31 December 2009 and 31 December 2008 no provision has been made because the Directors do not expect any claims to be made against the Company.

In February 2010, as a result of decisions regarding payments to holders of subordinated liabilities and other capital instruments as described in note 45a, the Company recognised a liability in respect of the subordinated guarantee to holders of certain loan notes issued by Bradford & Bingley Capital Funding L.P. described in note 33.

Notes to the Financial Statements

38. 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 17, and transactions between the Company and its subsidiaries are on 'arm's length' terms.

A summary of the remuneration of the key management personnel is set out in the table below. These amounts include the remuneration of the Directors which is set out in more detail in the Directors' Remuneration Report on pages 24 to 29. The Directors' Remuneration Report gives details of the Company's Directors' salaries, fees, bonuses, pension entitlements, share options, share plans, other incentives and other benefits. Further details of the accounting treatment of pensions are given in note 30. The key management personnel contributed £34,000 (2008: £74,000) to Group pension schemes during the year. Their increase in transfer value of defined benefit entitlements, net of employee contributions, was £178,000 (2008: £1,814,000).

Details of the Group's and Company's transactions and balances with the Group's pension schemes are given in note 30. There were no amounts due to or from the schemes at 31 December 2009 (2008: £nil).

Group and Company	Key personnel	
	2009 £000	2008 £000
Salaries, bonuses and other short-term benefits	**3,452**	4,607
Share-based payment	**-**	615
Total	**3,452**	5,222

The balances due from related parties and value of transactions were as follows::

Group	Key personnel	
	2009 £000	2008 £000
Debtors outstanding at 1 January	**2**	73
Net movement over the year	**76**	(71)
Debtors outstanding at 31 December	**78**	2
Interest earned	**4**	2

Company	Subsidiaries		Key personnel	
	2009 £m	2008 £m	**2009 £000**	2008 £000
Debtors outstanding at 1 January	**26,201.2**	25,989.6	**-**	-
Net movement over the year	**(1,829.5)**	211.6	**78**	-
Debtors outstanding at 31 December	**24,371.7**	26,201.2	**78**	-
Interest earned	**715.6**	958.8	**4**	-

The debtors due from key personnel as at 31 December 2009 are loans to purchase cars and are on commercial terms. The increase during the year arose due to additional senior managers being considered to be key personnel following the restructuring of the business during the year.

The balances due to related parties and value of transactions were as follows:

Group	Key personnel	
	2009 £000	2008 £000
Creditors outstanding at 1 January	**-**	1,047
Net movement over the year	**-**	(1,047)
Creditors outstanding at 31 December	**-**	-
Interest expense	**-**	39

Company	Subsidiaries		Key personnel	
	2009 £m	2008 £m	**2009 £000**	2008 £000
Creditors outstanding at 1 January	**29,509.6**	22,420.9	**-**	1,047
Net movement over the year	**(1,855.3)**	7,088.7	**-**	(1,047)
Creditors outstanding at 31 December	**27,654.3**	29,509.6	**-**	-
Interest expense	**303.8**	693.3	**-**	39

The balances with key personnel were savings products issued on the Group's usual commercial terms. All savings balances transferred to Abbey on 29 September 2008 as described in note 2.

The creditors due to subsidiary undertakings bear interest at a commercial LIBOR-related rate, and are included within 'other deposits'.

Notes to the Financial Statements

38. Related party disclosures (continued)

In addition to the interest income and expense shown above, the Company had other balances and transactions with its subsidiaries as follows:

	2009 £m	2008 £m
Derivative assets/(liabilities)	**38.1**	(39.3)
Dividend income	**35.0**	1.6
Return of capital	**37.1**	-
Management charges and servicing fee income	**37.0**	12.6

At 31 December 2009 the Company held £7,950.3m (2008: £8,324.7m) of loan notes issued by the Group's securitisation vehicles on which it earned interest of £210.8m during 2009 (2008: £262.6m). At 31 December 2009 the Company held £2,300.0m (2008: £2,943.0m) of loan notes issued under the Covered Bond programme, on which it earned interest of £43.5m during 2009 (2008: £93.8m). Loans and advances to customers of £nil (2008: £12,705.4m) were securitised during the year. Further information regarding the securitisations is provided in note 13.

As described in note 43, the Company considers Her Majesty's Government to be the ultimate controlling party. The Group's material balances with departments and bodies of Her Majesty's Government comprise deposits with the Bank of England totalling £323.0m (2008: £83.1m), the WCF (see note 24), the Statutory Debt (see note 25) and treasury bills and other UK Government securities held (see note 14). At 31 December 2009 the Group had repurchase agreements with the Bank of England totalling £nil (2008: £2,753.0m). HM Treasury has also provided guarantee arrangements to the Company. In addition to these loans and guarantees, the Group has balances and transactions with numerous Government bodies on an arm's length basis in relation to the payment of corporation tax, value added tax and employee taxes, and the payment of regulatory fees and levies. These balances and transactions are not disclosed due to their nature and volume.

As described in note 37, the Company has provided a number of financial guarantees to other Group companies. As at 31 December 2009 and 31 December 2008 no provision had been made. In February 2010, as a result of decisions regarding payments to holders of subordinated liabilities and other capital instruments as described in note 45a, the Company recognised a liability in respect of the subordinated guarantee to holders of certain loan notes issued by Bradford & Bingley Capital Funding L.P. described in note 33.

39. Critical accounting judgements and estimates

Judgements:

Financial instrument designation
Upon initial designation, a certain amount of judgement is required in ascertaining within which category, as prescribed in IAS 39, a financial instrument should be designated. The IAS 39 categories are detailed in the accounting policies set out in note 1 and the designation is based on the criteria specified in IAS 39.

Qualifying hedge relationships
In designating a financial instrument as part of a qualifying hedge relationship the Group and Company have determined that the hedge is expected to be highly effective over the life of the hedging instrument. In accounting for a derivative as a cash flow hedge the Group and Company have determined that the hedged cash flow exposure relates to highly probable future cash flows.

Impairment of debt securities
Critical judgement is applied in determining whether a debt security is impaired. Factors considered in determining whether an asset is impaired, or impairment has reversed, are detailed in note 1(m).

Securitisations
In applying the Group's policies on securitised financial assets, the Group and Company have considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity:

- When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated Financial Statements and the transferred assets continue to be recognised in the Group's Balance Sheet.
- When the Company or another Group entity has transferred financial assets to another entity, but has not transferred substantially all of the risks and rewards relating to the transferred assets, the assets continue to be recognised in the transferring entity's Balance Sheet.

Details of the Group's securitisation activities are given in note 13.

Deferred tax asset
Consideration has been given to whether tax losses are likely to be capable of being offset against future profits and therefore whether deferred tax should be recognised in relation to them. Based upon the information that has been provided in relation to the business plan, the expectation is that there will be sufficient profitability in future years in order to utilise tax losses in the Company and certain subsidiaries and therefore deferred tax has been recognised accordingly in relation to these post Transfer tax losses.

Estimates:

Effective interest rate
Loans and advances to customers are accounted for on an EIR basis, under which the income is spread over the loan's expected life. On a quarterly basis, models are reviewed to re-assess expected life by portfolio of products based upon actual redemptions by product and anticipated market conditions. At 31 December 2009, if the expected average life of a loan were increased or reduced by one month, the Balance Sheet amount of loans and advances to customers would be increased by £6.5m or reduced by £6.6m respectively. Similarly, the expected lives of other financial assets and liabilities are estimated in order to account for items on a EIR basis; these estimates of useful lives are not considered to be materially sensitive to estimation error.

Notes to the Financial Statements

39. Critical accounting judgements and estimates (continued)

Estimates (continued)

Loan impairment
The Group reviews its loan impairment on a monthly basis. Impairment models use actual loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. In addition, management applies a risk weighted view on additional factors, such as specific fraud cases. If average house prices were 10% lower than the values and assumptions at 31 December 2009 or if arrears were 50 basis points higher than as at 31 December 2009 the reported impairment charge for 2009 would have been around £96.8m or £33.7m higher respectively.

Post-retirement benefit obligations
The net deficit in respect of post-retirement benefit obligations is carried on the Balance Sheet. The value of these obligations is calculated by the Group's actuaries using the assumptions set out in note 30. Note 30 also discloses the impact on the benefit obligations of changes in certain key assumptions.

Provisions
Provisions are carried in respect of certain known or forecast future expenditure, as described in note 31.

40. Capital structure

	Group	
	2009	2008
At 31 December	**£m**	£m
Tier 1		
Share capital and reserves	**1,394.1**	1,158.1
Available-for-sale reserve adjustments	**47.2**	348.1
Cash flow hedge reserve adjustments	**39.6**	148.5
Net pension deficit	**84.9**	(10.0)
Innovative tier 1	**149.0**	149.0
Total tier 1 capital	**1,714.8**	1,793.7
Upper tier 2 capital	**813.2**	584.6
Lower tier 2 capital	**651.7**	676.0
Total tier 2 capital	**1,464.9**	1,260.6
Deductions	**-**	(55.7)
Total capital	**3,179.7**	2,998.6

The values of tier 1 and tier 2 capital above exclude any accounting adjustments arising from the hedging of these instruments.

The primary objectives of the Bank's capital management are to maintain capital ratios to support the objectives of the business, to cover risks inherent in its activities and to ensure that the bank complies with externally imposed capital requirements. The Group defines equity, subordinated liabilities and other capital instruments as capital. The Group's capital is assessed under a Basel II standardised regime.

The Bank manages its capital structure in response to changes in the nature of the Bank's activities and economic conditions.

The Bank's capital position is shown above. Tier 1 capital excludes accounting reserves for available-for-sale assets and cash flow hedges. Tier 2 capital reflects amortisation of subordinated debt where appropriate. The Group's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FSA, the UK regulator. The Bank must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FSA. The Bank has put in place processes and controls to monitor and manage the Bank's capital, and capital was adequate throughout the year.

The Company's capital is represented by the capital and reserves attributable to equity holders and is sufficient to meet the needs of the Company in its operations.

Notes to the Financial Statements

41. Financial instruments

a. Categories of financial assets and financial liabilities: carrying value compared to fair value

Group At 31 December 2009 Financial assets	**Available-for-sale £m**	**Assets at fair value through profit or loss – on initial recognition £m**	**Assets at fair value through profit or loss – held for trading £m**	**Loans and receivables £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**	**If fair value increased by 1% £m**
Cash and balances at central banks	-	-	-	**323.0**	-	**323.0**	**323.0**	**3.2**
Loans and advances to banks	-	-	-	**3,442.3**	-	**3,442.3**	**3,442.3**	**34.4**
Loans and advances to customers	-	-	-	**38,986.2**	-	**38,986.2**	**39,163.0**	**391.6**
Fair value adjustments on portfolio hedging	-	-	-	-	**294.2**	**294.2**	-	-
Debt securities	**2,505.3**	-	-	-	**50.6**	**2,555.9**	**2,555.9**	**25.6**
Derivative financial instruments	-	**3,660.6**	-	-	-	**3,660.6**	**3,660.6**	**36.6**
Other financial assets	-	-	-	**1.4**	-	**1.4**	**1.4**	-
Total financial assets	**2,505.3**	**3,660.6**	-	**42,752.9**	**344.8**	**49,263.6**	**49,146.2**	**491.4**

Financial liabilities	**Liabilities at fair value through profit or loss – on initial recognition £m**	**Liabilities at fair value through profit or loss – held for trading £m**	**Liabilities at amortised cost £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**	**If fair value increased by 1% £m**
Deposits by banks	-	-	**2,809.5**	-	**2,809.5**	**2,809.5**	**28.1**
Other deposits	-	-	**457.5**	-	**457.5**	**457.5**	**4.6**
HM Treasury Working Capital Facility	-	-	**8,537.8**	-	**8,537.8**	**8,537.8**	**85.4**
Statutory Debt	-	-	**18,416.2**	-	**18,416.2**	**18,416.2**	**184.2**
Derivative financial instruments	**665.6**	-	-	-	**665.6**	**665.6**	**6.7**
Debt securities in issue	-	-	**14,858.1**	**275.5**	**15,133.6**	**12,273.9**	**122.7**
Subordinated liabilities	-	-	**1,250.5**	**58.7**	**1,309.2**	**168.9**	**1.7**
Other capital instruments	-	-	**222.1**	**23.2**	**245.3**	**80.2**	**0.8**
Other financial liabilities	-	-	**191.3**	-	**191.3**	**191.3**	**1.9**
Total financial liabilities	**665.6**	-	**46,743.0**	**357.4**	**47,766.0**	**43,600.9**	**436.1**

Group At 31 December 2008 Financial assets	Available-for-sale £m	Assets at fair value through profit or loss –on initial recognition £m	Assets at fair value through profit or loss – held for trading £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair value increased by 1% £m
Cash and balances at central banks	-	-	-	100.4	-	100.4	100.4	1.0
Loans and advances to banks	-	-	-	3,349.2	-	3,349.2	3,349.2	33.5
Loans and advances to customers	-	-	-	41,826.0	-	41,826.0	41,296.1	413.0
Fair value adjustments on portfolio hedging	-	-	-	-	561.3	561.3	-	-
Debt securities	3,968.7	-	-	-	56.0	4,024.7	4,024.7	40.2
Derivative financial instruments	-	6,022.9	-	-	-	6,022.9	6,022.9	60.2
Other financial assets	-	-	-	6.1	-	6.1	6.1	0.1
Total financial assets	3,968.7	6,022.9	-	45,281.7	617.3	55,890.6	54,799.4	548.0

Financial liabilities	Liabilities at fair value through profit or loss – on initial recognition £m	Liabilities at fair value through profit or loss – held for trading £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair value increased by 1% £m
Deposits by banks	-	-	9,318.5	-	9,318.5	9,318.5	93.2
Other deposits	-	-	828.1	-	828.1	828.1	8.3
HM Treasury Working Capital Facility	-	-	2,275.7	-	2,275.7	2,275.7	22.8
Statutory Debt	-	-	18,413.9	-	18,413.9	18,413.9	184.1
Derivative financial instruments	1,230.2	-	-	-	1,230.2	1,230.2	12.3
Debt securities in issue	-	-	20,492.7	173.6	20,666.3	15,600.6	156.0
Subordinated liabilities	-	-	1,250.5	98.2	1,348.7	250.1	2.5
Other capital instruments	-	-	223.6	44.8	268.4	78.0	0.8
Other financial liabilities	-	-	147.8	-	147.8	147.8	1.5
Total financial liabilities	1,230.2	-	52,950.8	316.6	54,497.6	48,142.9	481.5

Notes to the Financial Statements

41. Financial instruments (continued)

a. Categories of financial assets and financial liabilities: carrying value compared to fair value (continued)

Company At 31 December 2009 Financial assets	**Available-for-sale £m**	**Assets at fair value through profit or loss – on initial recognition £m**	**Assets at fair value through profit or loss – held for trading £m**	**Loans and receivables £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**	**If fair value increased by 1% £m**
Cash and balances at central banks	-	-	-	316.6	-	316.6	316.6	3.2
Loans and advances to banks	-	-	-	1,436.2	-	1,436.2	1,436.2	14.4
Loans and advances to customers	-	-	-	54,343.7	-	54,343.7	54,359.9	543.6
Fair value adjustments on portfolio hedging	-	-	-	-	294.2	294.2	-	-
Debt securities	3,022.0	-	-	7,196.5	50.6	10,269.1	9,136.3	91.3
Derivative financial instruments	-	902.3	-	-	-	902.3	902.3	9.0
Other financial assets	-	-	-	1.4	-	1.4	1.4	-
Total financial assets	3,022.0	902.3	-	63,294.4	344.8	67,563.5	66,152.7	661.5

Financial liabilities	**Liabilities at fair value through profit or loss – on initial recognition £m**	**Liabilities at fair value through profit or loss – held for trading £m**	**Liabilities at amortised cost £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**	**If fair value increased by 1% £m**
Deposits by banks	-	-	1,092.6	-	1,092.6	1,092.6	10.9
Other deposits	25.7	-	28,231.7	-	28,257.4	28,257.4	282.6
HM Treasury Working Capital Facility	-	-	8,537.8	-	8,537.8	8,537.8	85.4
Statutory Debt	-	-	18,416.2	-	18,416.2	18,416.2	184.2
Derivative financial instruments	725.2	-	-	-	725.2	725.2	7.3
Debt securities in issue	-	-	8,814.9	296.8	9,111.7	8,136.9	81.4
Subordinated liabilities	-	-	1,549.1	80.4	1,629.5	324.1	3.2
Other financial liabilities	-	-	184.0	-	184.0	184.0	1.8
Total financial liabilities	750.9	-	66,826.3	377.2	67,954.4	65,674.2	656.8

Company At 31 December 2008 Financial assets	Available-for-sale £m	Assets at fair value through profit or loss – on initial recognition £m	Assets at fair value through profit or loss – held for trading £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair value increased by 1% £m
Cash and balances at central banks	-	-	-	100.4	-	100.4	100.4	1.0
Loans and advances to banks	-	-	-	1,380.8	-	1,380.8	1,380.8	13.8
Loans and advances to customers	-	-	-	58,622.1	-	58,622.1	58,608.9	586.1
Fair value adjustments on portfolio hedging	-	-	-	-	561.3	561.3	-	-
Debt securities	12,217.4	-	-	-	56.0	12,273.4	12,273.4	122.7
Derivative financial instruments	-	1,734.9	-	-	-	1,734.9	1,734.9	17.3
Other financial assets	-	-	-	5.0	-	5.0	5.0	0.1
Total financial assets	12,217.4	1,734.9	-	60,108.3	617.3	74,677.9	74,103.4	741.0

Financial liabilities	Liabilities at fair value through profit or loss – on initial recognition £m	Liabilities at fair value through profit or loss – held for trading £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m	If fair value increased by 1% £m
Deposits by banks	-	-	8,143.9	-	8,143.9	8,143.9	81.4
Other deposits	-	-	30,285.4	-	30,285.4	30,285.4	302.9
HM Treasury Working Capital Facility	-	-	2,275.7	-	2,275.7	2,275.7	22.8
Statutory Debt	-	-	18,413.9	-	18,413.9	18,413.9	184.1
Derivative financial instruments	1,309.4	-	-	-	1,309.4	1,309.4	13.1
Debt securities in issue	-	-	13,169.8	194.2	13,364.0	10,459.0	104.6
Subordinated liabilities	-	-	1,548.6	143.0	1,691.6	403.3	4.0
Other financial liabilities	-	-	134.3	-	134.3	134.3	1.3
Total financial liabilities	1,309.4	-	73,971.6	337.2	75,618.2	71,424.9	714.2

Notes to the Financial Statements

41. Financial instruments (continued)

a. Categories of financial assets and financial liabilities: carrying value compared to fair value (continued)

Cash and balances at central banks and loans and advances to banks: as credit risk is considered as part of the impairment review, the fair value is considered to be their carrying amount.

Loans and advances to customers: where floating rate loans and advances to customers have been issued at market rates we have assumed fair value approximates to book value, credit risk being considered as part of impairment review. Fixed rate mortgage balances within loans and advances to customers are fair valued using discounted cash flow models, using prevailing market rates, with underlying assumptions based on current market conditions. At 31 December 2009, their fair value in respect of interest rate risk is considered to be marginally higher than their carrying value. Given current market conditions, it is not known whether these fair values are reflective of prices that could be achieved on the open market.

Debt securities: fair value has been estimated through reference to market price.

Derivative financial instruments, other financial assets, deposits by banks and other financial liabilities: the fair value is their carrying amount.

Other deposits: the fair value is estimated from expected future cash flows, discounted at current market rates.

HM Treasury WCF and Statutory Debt: the fair value is assumed to be their carrying amount.

Debt securities in issue: the fair value has been estimated through reference to market prices.

Subordinated liabilities and other capital instruments: the fair value has been estimated through reference to market prices. As described in note 45a, as a consequence of the deferral of coupon and principal payments the carrying value of subordinated liabilities and other capital instruments has been reduced by approximately £70m in February 2010.

No financial assets were reclassified during 2008 by the Group or Company between amortised cost and fair value categories, or by the Group during 2009. At 1 January 2009, the Company reclassified debt security assets valued at £7,155.8m from available-for-sale to loans and receivables, because there is no active market in these assets and the Company intends to hold them until their maturity. At 31 December 2009 these assets were carried at £7,196.5m and the weighted average EIR at 1 January 2009 was 2.4%. The reclassified assets are carried at amortised cost, and the difference between the carrying value at the date of reclassification and the expected value at the redemption date is recognised in profit and loss on an effective interest rate basis over the expected life of the asset; their carrying amounts will accrete up to their redemption amounts over their expected lives. The amount recognised in profit and loss during the year was a gain of £40.7m, which was exactly offset by losses transferred from the available-for-sale reserve during the year. The expected redemption value of these assets is £8,063.8m. If the assets had not been reclassified, it is estimated that fair value losses of £1,092.1m would have been reflected in the available-for-sale reserve during 2009 in respect of these assets. The fair value of these assets at 31 December 2009 was £6,063.7m.

b. Trading book

During 2008 the Group ceased trading activities in derivatives. The net trading result for the year, which is all included in the Income Statement within 'realised losses on financial instruments', was £nil (2008: loss £1.0m).

The fair value of these held for trading derivatives was nil at 31 December 2009 and not material at 31 December 2008 and therefore does not appear in note 41.

c. Interest income and expense on financial instruments that are not at fair value through profit or loss

Total interest income and expense (calculated using the EIR method) on financial instruments that are not at fair value through profit or loss were as follows:

	Group	
	2009 £m	2008 £m
Interest income	**1,880.0**	3,121.8
Interest expense	**(1,267.6)**	(2,384.4)
Net interest income	**612.4**	737.4

The above includes interest on derivatives which are effective hedging instruments.

d. Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans and advances to customers are detailed in note 11, and in respect of debt securities in note 15. No impairment loss has been recognised in respect of any other class of financial asset, and no other class of financial asset includes assets that are past due.

e. Derecognition of financial assets

The following financial assets have been sold but continue to be carried on Balance Sheet because the sale does not qualify for derecognition; the Group remains exposed to the economic risk on the assets because of the sale terms.

Group At 31 December	**2009**		2008	
	Carrying amount of assets £m	**Carrying amount of associated liabilities £m**	Carrying amount of assets £m	Carrying amount of associated liabilities £m
Repurchase agreements (see also note 41f)	**570.2**	**1,166.3**	9,848.4	5,128.3
Total	**570.2**	**1,166.3**	9,848.4	5,128.3

Notes to the Financial Statements

41. Financial instruments (continued)

e. Derecognition of financial assets (continued)

Company At 31 December	2009 Carrying amount of assets £m	2009 Carrying amount of associated liabilities £m	2008 Carrying amount of assets £m	2008 Carrying amount of associated liabilities £m
Repurchase agreements (see also note 41f)	**1,416.0**	**1,166.3**	10,068.2	5,235.3
Total	**1,416.0**	**1,166.3**	10,068.2	5,235.3

In addition, loans to customers which have been securitised are not derecognised from the Balance Sheet as the originator of the loans retains substantially all of the risks and rewards of the securitised loans (see note 13).

f. Collateral

All loans and advances to customers made by the Group are secured on property. The secured property can be repossessed in the event of borrower default, in which case the carrying value of the loan is reduced if the estimated recoverable amount is lower than the outstanding balance owed, in accordance with the accounting policy described in note 1. The repossessed property is carried on the Balance Sheet within loans and advances to customers.

A credit exposure could arise in respect of derivative contracts entered into by the Group if the counterparty were unable to fulfil its contractual obligations. The Group addresses the risks associated with these activities by monitoring counterparty credit exposure and requiring additional collateral to be posted or returned as necessary. The only forms of collateral accepted by the Group are cash and government securities. Derivatives are transacted under ISDA with CSA annexes and as such may require collateral to be posted from time to time.

Fair value of collateral which we hold which we can sell or repledge in the absence of default by the owner of the collateral:

At 31 December	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Cash collateral which we have received in respect of derivative contracts	**850.8**	392.2	**393.3**	392.8
Total	**850.8**	392.2	**393.3**	392.8

None of the above collateral has been sold or repledged. The liability to repay the collateral received by the Company is included within 'deposits by banks'.

Carrying amount of financial assets which we have pledged as collateral:

At 31 December	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Assets under repurchase agreements (see also note 41e)	**570.2**	9,848.4	**1,416.0**	10,068.2
Cash Ratio Deposit with the Bank of England	**16.6**	32.1	**16.6**	32.1
Cash collateral which we have provided in respect of derivative contracts	**1,477.5**	1,467.8	**584.9**	849.7
Total	**2,064.3**	11,348.3	**2,017.5**	10,950.0

In addition, certain loans to customers have been securitised, as detailed in note 13. These loans, and also the other financial assets shown above which we have pledged, are carried on the Group's and Company's Balance Sheets.

g. Hedge accounting

The Group had the following types of hedges:

At 31 December 2009	Fair value hedges £m	Cash flow hedges £m	Other hedges £m	Total £m	Nominal amounts £m
Exchange rate contracts	**3,254.4**	**-**	**21.3**	**3,275.7**	**13,158.1**
Interest rate contracts	**139.2**	**79.4**	**166.3**	**384.9**	**16,883.0**
Total asset balances	**3,393.6**	**79.4**	**187.6**	**3,660.6**	**30,041.1**
Exchange rate contracts	**20.3**	**-**	**54.4**	**74.7**	**1,052.9**
Interest rate contracts	**338.8**	**170.6**	**80.3**	**589.7**	**23,441.1**
Other	**-**	**-**	**1.2**	**1.2**	**48.9**
Total liability balances	**359.1**	**170.6**	**135.9**	**665.6**	**24,542.9**
Fair value of hedging instruments	**3,034.5**	**(91.2)**	**51.7**	**2,995.0**	**5,498.2**

Notes to the Financial Statements

41. Financial instruments (continued)

g. Hedge accounting (continued)

At 31 December 2008	Fair value hedges £m	Cash flow hedges £m	Other hedges £m	Total £m	Nominal amounts £m
Exchange rate contracts	5,347.5	-	6.4	5,353.9	18,446.9
Interest rate contracts	188.7	120.3	360.0	669.0	37,046.3
Total asset balances	5,536.2	120.3	366.4	6,022.9	55,493.2
Exchange rate contracts	161.9	-	6.3	168.2	1,617.6
Interest rate contracts	646.2	325.3	90.5	1,062.0	43,217.4
Total liability balances	808.1	325.3	96.8	1,230.2	44,835.0
Fair value of hedging instruments	4,728.1	(205.0)	269.6	4,792.7	10,658.2

The Company had the following types of hedges:

At 31 December 2009	**Fair value hedges £m**	**Cash flow hedges £m**	**Other hedges £m**	**Total £m**	**Nominal amounts £m**
Exchange rate contracts	**360.4**	**-**	**21.3**	**381.7**	**2,603.1**
Interest rate contracts	**139.2**	**79.4**	**302.0**	**520.6**	**26,192.4**
Total asset balances	**499.6**	**79.4**	**323.3**	**902.3**	**28,795.5**
Exchange rate contracts	**20.3**	**-**	**54.4**	**74.7**	**1,052.9**
Interest rate contracts	**338.8**	**170.6**	**139.9**	**649.3**	**19,958.6**
Other	**-**	**-**	**1.2**	**1.2**	**48.9**
Total liability balances	**359.1**	**170.6**	**195.5**	**725.2**	**21,060.4**
Fair value of hedging instruments	**140.5**	**(91.2)**	**127.8**	**177.1**	**7,735.1**

At 31 December 2008	Fair value hedges £m	Cash flow hedges £m	Other hedges £m	Total £m	Nominal amounts £m
Exchange rate contracts	846.1	-	6.3	852.4	2,895.3
Interest rate contracts	322.0	120.3	440.2	882.5	29,688.5
Total asset balances	1,168.1	120.3	446.5	1,734.9	32,583.8
Exchange rate contracts	161.3	-	6.3	167.6	1,617.6
Interest rate contracts	677.3	325.3	139.2	1,141.8	48,989.6
Total liability balances	838.6	325.3	145.5	1,309.4	50,607.2
Fair value of hedging instruments	329.5	(205.0)	301.0	425.5	(18,023.4)

The other hedges are commercial hedges, but hedge accounting is not applied.

All of the Group's derivative contracts are used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions. For most of the Group's derivative contracts, hedge accounting is applied, but in other cases natural offsets apply, and as explained in note 1(k) the Company has used the Fair Value Option provisions of IAS 39 to prevent technical accounting mismatches in respect of certain swap arrangements.

The Group and Company use fair value hedge accounting and cash flow hedge accounting.

Fair value hedges are primarily used to hedge against changes in fair value of fixed rate products due to movements in market interest rates. For the year ended 31 December 2009, the Group recognised fair value gains of £44.1m (2008: £18.5m), representing the ineffective portion of the fair value hedges. In respect of loans and advances to customers, portfolio fair value hedge accounting is applied, and the fair value adjustment on that hedging was £294.2m at 31 December 2009 (2008: £561.3m).

Cash flow hedges are used to hedge the risk of exposure to variability of cash flows attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

Any gains or losses on cash flow hedges are recorded in equity until the hedged cash flow occurs, whereupon they are transferred to profit or loss for the period. As at 31 December 2009, net losses accumulated in equity were £39.6m (2008: £148.5m).

Hedge effectiveness is measured and assessed on an ongoing basis. Changes in fair values and cash flows of the hedged items were almost fully offset by changes in fair values and cash flows of the hedging instruments, and actual effectiveness was within a range of 80% to 125%.

The Group and Company had no material embedded derivatives at 31 December 2009 or 31 December 2008.

Prior to the Transfer, forward starting swaps were entered into, in anticipation of the take up of fixed rate mortgages. These were treated as cash flow hedges. Cash flow ineffectiveness testing incorporates testing for forecast transactions which are no longer expected to occur.

At the time of the Transfer, HM Treasury provided a guarantee with regard to certain derivative transactions with the Company existing at the time of the Transfer. The Company pays a fee for this guarantee. This guarantee was subject to approval by the EC under the EU state aid rules. As described in note 45a, EC approval was announced on 25 January 2010.

Notes to the Financial Statements

41. Financial instruments (continued)

g. Hedge accounting (continued)

Fair value movements on financial instruments recognised in the Income Statement comprised the following:

	Group	
	2009 £m	2008 £m
Net gains on fair value hedging instruments	**328.1**	2,879.5
Net losses on fair value hedged items	**(284.0)**	(2,861.0)
Net hedge ineffectiveness gains	**44.1**	18.5
Net (loss)/gain in fair value:		
- embedded derivatives	**-**	(64.1)
- other	**(79.1)**	247.1
Total fair value movements	**(79.1)**	183.0
Total fair value (losses)/gains recognised in the Income Statement	**(35.0)**	201.5

The other fair value movements arose on swaps which are commercial hedges but are not part of hedge accounting.

Realised gains less losses on financial instruments recognised in the Income Statement comprised the following:

	Group	
	2009 £m	2008 £m
Realised losses on available-for-sale instruments	**(12.4)**	(119.6)
Realised gains on instruments at amortised cost	**-**	0.3
Realised gains/(losses) on instruments at fair value through profit or loss	**3.9**	(1.0)
Total net realised losses on financial instruments recognised in the Income Statement	**(8.5)**	(120.3)

h. Fair value measurement

Financial assets and liabilities carried at fair value are valued on the following bases:

Group At 31 December 2009	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Debt securities: available-for-sale	**2,555.9**	**-**	**-**	**2,555.9**
Derivative financial instruments	**-**	**3,660.6**	**-**	**3,660.6**
Financial liabilities				
Derivative financial instruments	**-**	**(665.6)**	**-**	**(665.6)**

Company At 31 December 2009	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Debt securities: available-for-sale	**3,072.6**	**-**	**-**	**3,072.6**
Derivative financial instruments	**-**	**902.3**	**-**	**902.3**
Financial liabilities				
Other deposits	**-**	**(25.7)**	**-**	**(25.7)**
Derivative financial instruments	**-**	**(725.2)**	**-**	**(725.2)**

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

These definitions have been taken from the March 2009 amendment to IFRS 7 'Improving Disclosures about Financial Instruments'.

Notes to the Financial Statements

42. Risk management

A description of the principal risks to which the Group and Company are exposed is provided on pages 20 to 23 which form an integral part of the audited Financial Statements.

a. Financial and market risk

The following table describes the significant activities undertaken by the Group which give rise to financial or market risk and the potential consequences associated with such activities.

Activity	Risk	Type of derivative instrument used
Funding activities in sterling involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and interest rate futures
Fixed and capped rate mortgage lending and investment activities involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and options
Variable rate mortgage products	Sensitivity to changes in interest rates	Interest rate swaps
Investment and funding in foreign currencies	Sensitivity to changes in foreign exchange	Cross-currency interest rate swaps and foreign exchange contracts

The accounting policy for derivatives and hedge accounting is described in note 1(o), and further details of hedge accounting are provided in note 41g.

b. Credit risk

Before taking account of any collateral, the maximum exposure to credit risk was:

At 31 December	Group		Company	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Cash and balances at central banks	**323.0**	100.4	**316.6**	100.4
Loans and advances to banks	**3,442.3**	3,349.2	**1,436.2**	1,380.8
Loans and advances to customers	**38,986.2**	41,826.0	**54,343.7**	58,622.1
Debt securities	**2,555.9**	4,024.7	**10,269.1**	12,273.4
Derivative financial instruments	**3,660.6**	6,022.9	**902.3**	1,734.9
Other financial assets	**1.4**	6.1	**1.4**	5.0
Total on-Balance Sheet	**48,969.4**	55,329.3	**67,269.3**	74,116.6
Irrevocable undrawn loan facilities (off-Balance Sheet) (see note 37)	**1,611.9**	1,750.4	**42.4**	37.5
Total maximum exposure to credit risk	**50,581.3**	57,079.7	**67,311.7**	74,154.1

In respect of loans and advances to banks and customers and derivative financial instruments, the Group and Company may hold reverse repurchase agreements and may also hold cash as security (see notes 41e and 41f). Loans and advances to customers are secured on property. Further information regarding credit quality of loans and advances to customers is provide in note 11, and of loans and advances to banks and debt securities in note 14.

In respect of lifetime mortgages, the irrevocable, undrawn loan facility is calculated using actuarial assumptions. There is no commitment to advance further cash; the commitment reflects interest expected to roll up on the loans until redemption.

c. Liquidity risk

It should be noted that many financial instruments are settled earlier than their contractual maturity dates; in particular, many mortgage loans are repaid early in full or in part.

The Group closely monitors its liquidity position against the Board's liquidity policy. This policy sets out elements of available and required liquidity through reference to and modelling of net lending commitments, short and medium term wholesale commitments, liquidity reserves and the requirement for other payments (e.g. dividends and tax). From this, minimum and target liquidity levels are established. Furthermore, liquidity is also measured in proportion to the total Balance Sheet and is subject to trigger levels; these determine the appropriate levels of escalation in order to address any actual or forecast shortfalls. The liquidity policy also requires stress testing through modelling and assessment of any emerging and potentially extreme funding conditions. The Group complies with the FSA's Liquidity Mismatch Regime, under which the contractual maturities of assets and liabilities meet criteria set by the FSA.

Notes to the Financial Statements

42. Risk management (continued)

c. Liquidity risk (continued)

The contractual maturities of financial assets and liabilities were as follows:

Group **At 31 December 2009**	**On demand** **£m**	**In not more than three months** **£m**	**In more than three months but not more than one year** **£m**	**In more than one year but not more than five years** **£m**	**In more than five years** **£m**	**Total** **£m**
Financial assets						
Cash and balances at central banks	**306.4**	**-**	**-**	**-**	**16.6**	**323.0**
Loans and advances to banks	**2,942.1**	**500.2**	**-**	**-**	**-**	**3,442.3**
Loans and advances to customers	**-**	**66.4**	**398.5**	**1,758.7**	**36,762.6**	**38,986.2**
Fair value adjustments on portfolio hedging	**294.2**	**-**	**-**	**-**	**-**	**294.2**
Debt securities	**-**	**14.4**	**292.3**	**912.1**	**1,337.1**	**2,555.9**
Derivative financial instruments	**-**	**182.2**	**522.2**	**1,632.1**	**1,324.1**	**3,660.6**
Other financial assets	**-**	**1.4**	**-**	**-**	**-**	**1.4**
Total financial assets	**3,542.7**	**764.6**	**1,213.0**	**4,302.9**	**39,440.4**	**49,263.6**
Financial liabilities						
Deposits by banks	**1,585.9**	**666.3**	**-**	**557.3**	**-**	**2,809.5**
Other deposits	**457.5**	**-**	**-**	**-**	**-**	**457.5**
HM Treasury Working Capital Facility	**8,537.8**	**-**	**-**	**-**	**-**	**8,537.8**
Statutory Debt	**18,416.2**	**-**	**-**	**-**	**-**	**18,416.2**
Derivative financial instruments	**-**	**24.5**	**181.8**	**263.5**	**195.8**	**665.6**
Debt securities in issue	**-**	**2,553.0**	**2,737.3**	**5,442.5**	**4,400.8**	**15,133.6**
Subordinated liabilities	**-**	**124.8**	**-**	**261.5**	**922.9**	**1,309.2**
Other capital instruments	**-**	**-**	**-**	**-**	**245.3**	**245.3**
Other financial liabilities	**-**	**127.9**	**63.4**	**-**	**-**	**191.3**
Total financial liabilities	**28,997.4**	**3,496.5**	**2,982.5**	**6,524.8**	**5,764.8**	**47,766.0**
Group net liquidity gap	**(25,454.7)**	**(2,731.9)**	**(1,769.5)**	**(2,221.9)**	**33,675.6**	**1,497.6**
Group financial assets at 31 December 2008	3,889.6	1,148.9	1,966.9	5,021.3	43,863.9	55,890.6
Group financial liabilities at 31 December 2008	23,003.5	4,970.4	4,313.3	15,843.7	6,366.7	54,497.6
Group net liquidity gap at 31 December 2008	(19,113.9)	(3,821.5)	(2,346.4)	(10,822.4)	37,497.2	1,393.0

Company **At 31 December 2009**	**On demand** **£m**	**In not more than three months** **£m**	**In more than three months but not more than one year** **£m**	**In more than one year but not more than five years** **£m**	**In more than five years** **£m**	**Total** **£m**
Financial assets						
Cash and balances at central banks	**300.0**	**-**	**-**	**-**	**16.6**	**316.6**
Loans and advances to banks	**936.0**	**500.2**	**-**	**-**	**-**	**1,436.2**
Loans and advances to customers	**24,371.7**	**53.9**	**301.0**	**1,528.0**	**28,089.1**	**54,343.7**
Fair value adjustments on portfolio hedging	**294.2**	**-**	**-**	**-**	**-**	**294.2**
Debt securities	**-**	**14.4**	**292.3**	**1,140.4**	**8,822.0**	**10,269.1**
Derivative financial instruments	**-**	**29.1**	**45.1**	**621.4**	**206.7**	**902.3**
Other financial assets	**-**	**1.4**	**-**	**-**	**-**	**1.4**
Total financial assets	**25,901.9**	**599.0**	**638.4**	**3,289.8**	**37,134.4**	**67,563.5**
Financial liabilities						
Deposits by banks	**421.1**	**666.3**	**-**	**5.2**	**-**	**1,092.6**
Other deposits	**27,657.4**	**-**	**-**	**600.0**	**-**	**28,257.4**
HM Treasury Working Capital Facility	**8,537.8**	**-**	**-**	**-**	**-**	**8,537.8**
Statutory Debt	**18,416.2**	**-**	**-**	**-**	**-**	**18,416.2**
Derivative financial instruments	**-**	**24.5**	**181.8**	**321.2**	**197.7**	**725.2**
Debt securities in issue	**-**	**310.7**	**1,907.9**	**2,492.3**	**4,400.8**	**9,111.7**
Subordinated liabilities	**-**	**124.8**	**-**	**261.5**	**1,243.2**	**1,629.5**
Other financial liabilities	**-**	**120.6**	**63.4**	**-**	**-**	**184.0**
Total financial liabilities	**55,032.5**	**1,246.9**	**2,153.1**	**3,680.2**	**5,841.7**	**67,954.4**
Company net liquidity gap	**(29,130.6)**	**(647.9)**	**(1,514.7)**	**(390.4)**	**31,292.7**	**(390.9)**
Company financial assets at 31 December 2008	28,123.3	1,139.4	916.0	3,298.2	41,201.0	74,677.9
Company financial liabilities at 31 December 2008	52,512.3	4,886.2	4,135.8	7,616.9	6,467.0	75,618.2
Company net liquidity gap at 31 December 2008	(24,389.0)	(3,746.8)	(3,219.8)	(4,318.7)	34,734.0	(940.3)

Notes to the Financial Statements

42. Risk management (continued)

c. Liquidity risk (continued)

HM Treasury has indicated that it expects the WCF provided to the Company by HM Treasury and the Statutory Debt due to the FSCS to be repaid out of the cash flows generated by the Company and the Group during their wind-down. As explained in notes 24 and 25 it is not possible to specify the contractual maturity dates of the loans to the Company from HM Treasury and from the FSCS, and they have been included in the tables above as though repayable on demand.

As described in note 37, the Company has provided a number of financial guarantees to other Group companies. No cash outflows are included in the above tables in respect of these guarantees because at 31 December 2009 and 31 December 2008 the Directors did not expect any claims to be made against the Company. As described in note 45a, as a consequence of decisions taken in February 2010, the Company is obliged to make future payments to holders of certain loan notes issued by a subsidiary undertaking. These future payments are not included in the tables above.

As described in note 13, certain debt securities in issue are being repaid on a pass-through basis. In the above tables, deferred amounts are treated as though they will be paid on the next scheduled interest payment date.

The contractual undiscounted cash flows associated with financial liabilities were as follows:

Group Financial liabilities At 31 December 2009	**On demand £m**	**In not more than three months £m**	**In more than three months but not more than one year £m**	**In more than one year but not more than five years £m**	**In more than five years £m**	**Total £m**
Deposits by banks	**1,585.9**	**670.9**	**6.3**	**574.0**	**-**	**2,837.1**
Other deposits	**457.5**	**-**	**-**	**-**	**-**	**457.5**
HM Treasury Working Capital Facility	**8,537.8**	**-**	**-**	**-**	**-**	**8,537.8**
Statutory Debt	**18,416.2**	**-**	**-**	**-**	**-**	**18,416.2**
Derivative financial instruments	**-**	**123.3**	**285.6**	**533.5**	**1,194.3**	**2,136.7**
Debt securities in issue	**-**	**2,609.8**	**2,878.8**	**5,869.8**	**5,292.0**	**16,650.4**
Subordinated liabilities	**-**	**154.4**	**107.4**	**928.8**	**1,032.4**	**2,223.0**
Other capital instruments	**-**	**2.0**	**11.5**	**44.5**	**395.1**	**453.1**
Other financial liabilities	**-**	**98.1**	**-**	**-**	**-**	**98.1**
Irrevocable undrawn loan facilities	**104.6**	**-**	**-**	**-**	**-**	**104.6**
Total	**29,102.0**	**3,658.5**	**3,289.6**	**7,950.6**	**7,913.8**	**51,914.5**
Included in the above are the following expected cash flows arising on cash flow hedges (positive = outflow); no impact is anticipated on the Income Statement due to hedging arrangements.						
Cash flow hedges	**-**	**38.8**	**81.1**	**116.2**	**30.1**	**266.2**

Group Financial liabilities At 31 December 2008	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years £m	Total £m
Deposits by banks	2,304.8	4,497.0	1,181.0	1,532.9	-	9,515.7
Other deposits	9.1	102.0	83.4	669.8	-	864.3
HM Treasury Working Capital Facility	2,275.7	-	-	-	-	2,275.7
Statutory Debt	18,413.9	-	-	-	-	18,413.9
Derivative financial instruments	-	42.5	(20.5)	387.7	(425.0)	(15.3)
Debt securities in issue	-	310.4	3,366.6	14,130.0	6,765.4	24,572.4
Subordinated liabilities	-	20.5	61.6	904.2	1,077.1	2,063.4
Other capital instruments	-	3.2	9.6	51.0	408.1	471.9
Other financial liabilities	-	147.8	-	-	-	147.8
Irrevocable undrawn loan facilities	118.4	-	-	-	-	118.4
Acquisition of mortgage portfolios	-	310.0	-	-	-	310.0
Total	23,121.9	5,433.4	4,681.7	17,675.6	7,825.6	58,738.2
Included in the above are the following expected cash flows arising on cash flow hedges (positive = outflow); no impact is anticipated on the Income Statement due to hedging arrangements.						
Cash flow hedges	-	18.9	(7.5)	52.9	7.9	72.2

The amounts in the above tables differ from the Balance Sheet carrying values because the Balance Sheet amounts are based on discounted cash flows, and also because the above amounts include associated cash flows including interest; future interest rates have been estimated based on the Bank of England base rate at the Balance Sheet date of 0.5% (2008: 2.0%).

Subordinated liabilities include perpetual instruments as detailed in note 32. The amounts above assume these instruments will be redeemed on 31 December 2032.

Notes to the Financial Statements

42. Risk management (continued)

c. Liquidity risk (continued)

The contractual undiscounted cash flows associated with financial liabilities were as follows:

Company Financial liabilities At 31 December 2009	**On demand £m**	**In not more than three months £m**	**In more than three months but not more than one year £m**	**In more than one year but not more than five years £m**	**In more than five years £m**	**Total £m**
Deposits by banks	**421.1**	**668.8**	**0.1**	**5.4**	**-**	**1,095.4**
Other deposits	**27,657.4**	**2.3**	**6.8**	**618.0**	**-**	**28,284.5**
HM Treasury Working Capital Facility	**8,537.8**	**-**	**-**	**-**	**-**	**8,537.8**
Statutory Debt	**18,416.2**	**-**	**-**	**-**	**-**	**18,416.2**
Derivative financial instruments	**-**	**108.5**	**241.9**	**418.3**	**(454.3)**	**314.4**
Debt securities in issue	**-**	**344.9**	**2,006.9**	**2,831.1**	**5,292.0**	**10,474.9**
Subordinated liabilities	**-**	**157.7**	**117.8**	**979.0**	**1,502.8**	**2,757.3**
Other financial liabilities	**-**	**90.8**	**-**	**-**	**-**	**90.8**
Irrevocable undrawn loan facilities	**12.2**	**-**	**-**	**-**	**-**	**12.2**
Total	**55,044.7**	**1,373.0**	**2,373.5**	**4,851.8**	**6,340.5**	**69,983.5**

Included in the above are the following expected cash flows arising on cash flow hedges (positive = outflow); no impact is anticipated on the Income Statement due to hedging arrangements.

Cash flow hedges	**-**	**38.8**	**81.1**	**116.2**	**30.1**	**266.2**

Company Financial liabilities At 31 December 2008	On demand £m	In not more than three months £m	In more than three months but not more than one year £m	In more than one year but not more than five years £m	In more than five years £m	Total £m
Deposits by banks	2,303.5	4,488.2	1,154.6	289.2	-	8,235.5
Other deposits	29,519.2	101.7	82.8	638.7	-	30,342.4
HM Treasury Working Capital Facility	2,275.7	-	-	-	-	2,275.7
Statutory Debt	18,413.9	-	-	-	-	18,413.9
Derivative financial instruments	-	47.1	(20.5)	165.4	(425.0)	(233.0)
Debt securities in issue	-	186.2	3,019.9	6,658.1	6,765.4	16,629.6
Subordinated liabilities	-	24.5	73.4	967.4	1,564.1	2,629.4
Other financial liabilities	-	134.3	-	-	-	134.3
Irrevocable undrawn loan facilities	37.5	-	-	-	-	37.5
Total	52,549.8	4,982.0	4,310.2	8,718.8	7,904.5	78,465.3

Included in the above are the following expected cash flows arising on cash flow hedges (positive = outflow); no impact is anticipated on the Income Statement due to hedging arrangements.

Cash flow hedges	-	18.9	(7.5)	52.9	7.9	72.2

The amounts in the above tables differ from the Balance Sheet carrying values because the Balance Sheet amounts are based on discounted cash flows, and also because the above amounts include associated cash flows including interest; future interest rates have been estimated based on the Bank of England base rate at the Balance Sheet date of 0.5% (2008: 2.00%).

Subordinated liabilities include perpetual instruments as detailed in note 32. The amounts above assume these instruments will be redeemed on 31 December 2032.

As described in note 37, the Company has provided a number of financial guarantees to other Group companies. No cash outflows are included in the above tables in respect of these guarantees because at 31 December 2009 and 31 December 2008 the Directors did not expect any claims to be made against the Company. As described in note 45a, as a consequence of decisions taken in February 2010, the Company is obliged to make future payments to holders of certain loan notes issued by a subsidiary undertaking. These future payments are not included in the tables above.

Notes to the Financial Statements

42. Risk management (continued)

d. Interest rate risk

Interest rate risk typically arises from mismatches between the re-pricing dates of the interest-bearing assets and liabilities on the Group's Balance Sheet, and from the investment profile of the Group's capital and reserves. The Group's Treasury is responsible for managing this exposure within the risk exposure limits set out in the Interest Rate and Foreign Exchange Risk policy, as approved by the Board. This policy sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk. Market risk is the potential adverse change in Group income or Group net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

It is ALCO's responsibility to recommend to the Risk Committee strategies for managing market risk exposures and to ensure that the Group's Treasury implements the strategies so that the exposures are managed within the Group's approved Board policy limits.

The Group assesses its exposure to interest rate movements using a number of techniques. However, there are two principal methods:

i) a static framework that considers the impact on the current Balance Sheet of an immediate movement of interest rates; and

ii) a dynamic modelling framework that considers the projected change to the Balance Sheet over the following year under various interest rate scenarios.

The results of these analyses are presented to senior management in order to identify, measure and manage the Group's exposure to interest rate risk.

Limits are placed on the sensitivity of the Group Balance Sheet to movements in interest rates. Exposures are reviewed as appropriate by senior management and the Board with a frequency between daily and monthly, related to the granularity of the position. For example, the overall Group Balance Sheet interest rate risk exposure position is monitored monthly whilst several specific portfolios within the Balance Sheet are reviewed more frequently on a daily or weekly basis. This reflects the dynamics and materiality of the various portfolios.

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps. Interest rate swaps are over-the-counter arrangements with highly rated banking counterparties. The Group also uses asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to the Group.

In general, swaps which have been taken out to manage Group interest rate risk are held by the Company even where the related financial instruments are held by other Group entities. In these cases, the Company's interest rate risk is managed by either creating swaps between the Company and the entities which hold the instruments or by setting the interest rate terms on loan balances between the Company and those entities, in each case in order to reduce the Company's interest rate risk to an acceptable level.

Interest rate sensitivities are reported to ALCO monthly and are calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve.

The main metric used by management to control interest rate risk is the sensitivity of interest margin over 12 months to a notional 2% parallel move in market and base rates. As at 31 December this sensitivity was:

	Group	
	2009 £m	2008 £m
2% increase	**306.5**	184.8
2% decrease	**(140.8)**	(182.8)

Notes to the Financial Statements

42. Risk management (continued)

e. Foreign currency risk

The Group's policy is to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. Consequently, at 31 December 2009 and 31 December 2008 the Group and Company had no net material exposure to foreign exchange fluctuations or changes in foreign currency interest rates. The impact on the Group's loss and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 December 2009 or 31 December 2008.

The sterling equivalent amounts of the Group's and Company's financial assets and liabilities denominated in foreign currencies as at 31 December 2009 and 31 December 2008 are set out in the tables below, excluding the nominal value of cross-currency interest rate swaps. The net financial assets/(liabilities) in nonsterling currencies largely represent the nominal value of hedging cross-currency swaps excluded from the table.

Group **At 31 December 2009**	**Sterling** **£m**	**Euro** **£m**	**US $** **£m**	**Other** **£m**	**Total** **£m**
Financial assets					
Cash and balances at central banks	**323.0**	**-**	**-**	**-**	**323.0**
Loans and advances to banks	**3,346.4**	**50.2**	**45.7**	**-**	**3,442.3**
Loans and advances to customers	**38,986.2**	**-**	**-**	**-**	**38,986.2**
Fair value adjustments on portfolio hedging	**294.2**	**-**	**-**	**-**	**294.2**
Debt securities	**1,306.5**	**975.2**	**274.2**	**-**	**2,555.9**
Derivative financial instruments	**384.8**	**2,566.2**	**326.5**	**383.1**	**3,660.6**
Other financial assets	**1.4**	**-**	**-**	**-**	**1.4**
Total financial assets	**44,642.5**	**3,591.6**	**646.4**	**383.1**	**49,263.6**
Financial liabilities					
Deposits by banks	**1,695.4**	**1,114.1**	**-**	**-**	**2,809.5**
Other deposits	**2.5**	**-**	**455.0**	**-**	**457.5**
HM Treasury Working Capital Facility	**8,537.8**	**-**	**-**	**-**	**8,537.8**
Statutory Debt	**18,416.2**	**-**	**-**	**-**	**18,416.2**
Derivative financial instruments	**590.9**	**68.2**	**6.5**	**-**	**665.6**
Debt securities in issue	**2,388.9**	**9,387.2**	**1,982.5**	**1,375.0**	**15,133.6**
Subordinated liabilities	**1,309.2**	**-**	**-**	**-**	**1,309.2**
Other capital instruments	**245.3**	**-**	**-**	**-**	**245.3**
Other financial liabilities	**191.3**	**-**	**-**	**-**	**191.3**
Total financial liabilities	**33,377.5**	**10,569.5**	**2,444.0**	**1,375.0**	**47,766.0**
Net financial assets/(liabilities)	**11,265.0**	**(6,977.9)**	**(1,797.6)**	**(991.9)**	**1,497.6**

Group At 31 December 2008	Sterling £m	Euro £m	US $ £m	Other £m	Total £m
Financial assets					
Cash and balances at central banks	100.4	-	-	-	100.4
Loans and advances to banks	3,259.4	43.9	45.9	-	3,349.2
Loans and advances to customers	41,826.0	-	-	-	41,826.0
Fair value adjustments on portfolio hedging	561.3	-	-	-	561.3
Debt securities	1,194.2	2,427.2	403.3	-	4,024.7
Derivative financial instruments	668.7	4,073.0	792.7	488.5	6,022.9
Other financial assets	6.1	-	-	-	6.1
Total financial assets	47,616.1	6,544.1	1,241.9	488.5	55,890.6
Financial liabilities					
Deposits by banks	8,256.6	1,061.7	0.2	-	9,318.5
Other deposits	719.0	86.0	23.1	-	828.1
HM Treasury Working Capital Facility	2,275.7	-	-	-	2,275.7
Statutory Debt	18,413.9	-	-	-	18,413.9
Derivative financial instruments	1,027.9	184.2	18.1	-	1,230.2
Debt securities in issue	1,009.8	15,147.1	3,108.1	1,401.3	20,666.3
Subordinated liabilities	1,348.7	-	-	-	1,348.7
Other capital instruments	268.4	-	-	-	268.4
Other financial liabilities	147.8	-	-	-	147.8
Total financial liabilities	33,467.8	16,479.0	3,149.5	1,401.3	54,497.6
Net financial assets/(liabilities)	14,148.3	(9,934.9)	(1,907.6)	(912.8)	1,393.0

Notes to the Financial Statements

42. Risk management (continued)

e. Foreign currency risk (continued)

Company **At 31 December 2009**	**Sterling** **£m**	**Euro** **£m**	**US $** **£m**	**Other** **£m**	**Total** **£m**
Financial assets					
Cash and balances at central banks	**316.6**	**-**	**-**	**-**	**316.6**
Loans and advances to banks	**1,340.3**	**50.2**	**45.7**	**-**	**1,436.2**
Loans and advances to customers	**54,343.7**	**-**	**-**	**-**	**54,343.7**
Fair value adjustments on portfolio hedging	**294.2**	**-**	**-**	**-**	**294.2**
Debt securities	**7,781.9**	**2,161.6**	**325.6**	**-**	**10,269.1**
Derivative financial instruments	**520.5**	**329.1**	**8.1**	**44.6**	**902.3**
Other financial assets	**1.4**	**-**	**-**	**-**	**1.4**
Total financial assets	**64,598.6**	**2,540.9**	**379.4**	**44.6**	**67,563.5**
Financial liabilities					
Deposits by banks	**415.6**	**677.0**	**-**	**-**	**1,092.6**
Other deposits	**28,257.4**	**-**	**-**	**-**	**28,257.4**
HM Treasury Working Capital Facility	**8,537.8**	**-**	**-**	**-**	**8,537.8**
Statutory Debt	**18,416.2**	**-**	**-**	**-**	**18,416.2**
Derivative financial instruments	**650.5**	**68.2**	**6.5**	**-**	**725.2**
Debt securities in issue	**732.5**	**6,924.0**	**80.2**	**1,375.0**	**9,111.7**
Subordinated liabilities	**1,629.5**	**-**	**-**	**-**	**1,629.5**
Other financial liabilities	**184.0**	**-**	**-**	**-**	**184.0**
Total financial liabilities	**58,823.5**	**7,669.2**	**86.7**	**1,375.0**	**67,954.4**
Net financial assets/(liabilities)	**5,775.1**	**(5,128.3)**	**292.7**	**(1,330.4)**	**(390.9)**

Company At 31 December 2008	Sterling £m	Euro £m	US $ £m	Other £m	Total £m
Financial assets					
Cash and balances at central banks	100.4	-	-	-	100.4
Loans and advances to banks	1,292.1	42.8	45.9	-	1,380.8
Loans and advances to customers	58,622.1	-	-	-	58,622.1
Fair value adjustments on portfolio hedging	561.3	-	-	-	561.3
Debt securities	9,442.9	2,427.2	403.3	-	12,273.4
Derivative financial instruments	881.1	712.0	17.4	124.4	1,734.9
Other financial assets	5.0	-	-	-	5.0
Total financial assets	70,904.9	3,182.0	466.6	124.4	74,677.9
Financial liabilities					
Deposits by banks	7,082.0	1,061.7	0.2	-	8,143.9
Other deposits	30,176.3	86.0	23.1	-	30,285.4
HM Treasury Working Capital Facility	2,275.7	-	-	-	2,275.7
Statutory Debt	18,413.9	-	-	-	18,413.9
Derivative financial instruments	1,107.1	184.2	18.1	-	1,309.4
Debt securities in issue	1,323.4	10,549.1	90.2	1,401.3	13,364.0
Subordinated liabilities	1,691.6	-	-	-	1,691.6
Other financial liabilities	134.3	-	-	-	134.3
Total financial liabilities	62,204.3	11,881.0	131.6	1,401.3	75,618.2
Net financial assets/(liabilities)	8,700.6	(8,699.0)	335.0	(1,276.9)	(940.3)

f. Concentrations of risk

The Group has investments in a range of debt securities issued by government bodies, banks and building societies, and in asset-backed securities, in both the UK and overseas. UK government securities, bank and supranational securities and bank certificates of deposit comprise 48% (2008: 59%) of debt securities held. 62% (2008: 63%) of the asset-backed securities are backed by UK assets.

The Group operates primarily in the UK, and adverse changes to the UK economy could impact all areas of the Group's business. Residential loans and advances to customers are all secured on property in the UK. 63% (2008: 61%) of residential loans and advances to customers are concentrated in the buy-to- let market; the remaining balances are mainly secured on residential owner-occupied properties.

The residential loan book of £38.2bn is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 51% of the book.

Within the commercial mortgage portfolio and housing association loans, there are approximately 70 loans totalling £818.9m, the largest 10 loans accounting for 84% of the portfolio. All these loans are secured on commercial and housing association properties.

Notes to the Financial Statements

43. Controlling party

As a result of the Transfer, which transferred all shares in Bradford & Bingley plc to the Treasury Solicitor as nominee for HM Treasury on 29 September 2008, the Company considers Her Majesty's Government to be the ultimate controlling party from that date.

44. Contingent liabilities

On 20 January 2009 a solicitor's letter was received notifying the Company and certain present and former Directors of a potential claim by approximately 1,600 former individual shareholders who subscribed for additional shares in the £401m rights issue approved on 17 July 2008. The Directors believe that the number of potential claimants has since increased to in excess of 12,000. These former shareholders claim to have suffered loss through having been induced to subscribe for shares in the rights issue by allegedly materially misleading and/or incomplete statements made in the associated prospectus dated 24 June 2008 as revised and supplemented by the supplementary prospectus dated 11 July 2008. Should such a claim result in proceedings which are pursued through the courts and which succeed, the defendant Directors and/or the Company could be liable in damages to certain former shareholders in the Company who subscribed for shares in the rights issue. The Company together with its legal advisers has responded to the allegations raised. It is not possible at this stage to determine the outcome or timing of any conclusion to this matter. No provision has been made in respect of these allegations.

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.

45. Events after the Balance Sheet date

a. The Board have deferred payment of subordinated coupons since mid-June 2009. Each decision to defer has been taken on a case by case basis. On 25 January 2010, the Company was notified of the EC's decision to grant State Aid. The EC's decision sets various conditions to the Company receiving State Aid, one of which is that the Group shall not make payments of interest and principal on the subordinated debt until the Statutory Debt described in note 25 has been repaid in full, unless it has a contractual obligation to do so.

   In light of this condition, following the Board meeting of 23 February 2010 the Company announced that it had resolved not to make any payment of principal or interest in respect of the Group's subordinated liabilities as listed in note 32 during the period prior to the date on which it repays in full the Statutory Debt described in note 25. The Company announced that it intends to continue to make payments in full under its guarantee of the £150,000,000 6.462% guaranteed, non-voting, non-cumulative, perpetual preferred securities, Series A, issued by Bradford & Bingley Capital Funding L.P., subject to the terms of such instruments (see note 33). Consequently, the carrying value of subordinated liabilities and other capital instruments has been reduced by approximately £70m in February 2010, with an equal gain being recognised in income.

b. On 25 February 2010 Bowler Finance plc (see note 13) exercised its option to redeem at par all of the outstanding notes issued by it, and the security over the mortgage assets underlying the notes was released. All of these loan notes were held by the Company.