

# **Bradford & Bingley Homeloans Management Ltd**

Directors' Report and Financial Statements

Registered number 2405577

31 December 2007

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**Directors' Report and Financial Statements**

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**Company Information**

**Directors**

Havana Aman Abid  
Christopher Patrick Willford  
Ian Anderson

**Secretary**

Paul Martin Hopkinson

**Registered Office**

PO Box 88  
Croft Road  
Crossflatts  
Bingley  
West Yorkshire  
BD16 2UA

**Auditor**

KPMG Audit Plc  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

## **Directors' Report for the year ended 31 December 2007**

The Directors present their Report and Financial Statements for the year ended 31 December 2007

### **Principal activity**

Bradford & Bingley Homeloans Management Limited ("the Company") is a limited Company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales

The Company's ultimate parent undertaking is Bradford & Bingley plc. References in these Financial Statements to Group refer to Bradford & Bingley plc and its subsidiaries

During the year the Company traded through an agreement between Alltel Mortgage Solutions Limited and Bradford & Bingley Investments, a wholly owned subsidiary of Bradford & Bingley plc. The Company's principal activity during the year consisted of providing residential mortgage loan origination and processing services to Bradford & Bingley plc

### **Business review**

The results for the year are shown in the Income Statement on page 9. The loss after taxation was (£1,067,939) (2006 loss £703,168). Profit before taxation was £50,000 which was consistent with 2006

### **Dividends**

No dividends were paid during the year or preceding year and the Directors do not recommend the payment of a final dividend

### **Payment policy**

Standard terms provide for payment of all invoices within 30 days of invoice date, except where different arrangements have been agreed with suppliers. It is the policy of the Company to abide by the agreed payment terms

### **Directors and their interests**

The Directors who served during the year were as follows

Robert Stewart Dickie (resigned 21 April 2008)  
Mark Stevens (appointed 01 May 2007)  
Havana Aman Abid (appointed 17 October 2007)  
Christopher Donald Gillespie (resigned 1 May 2007)  
Christopher Patrick Willford  
David Colin Craggs (resigned 17 October 2007)

On 4 September 2008, Mark Stevens resigned as director and John Ian Barnetson Anderson was appointed

None of the Directors held any interest in the ordinary shares of the Company during the year or preceding year. Mr Dickie, Mr Willford and Mr Stevens also served as Directors of the Company's ultimate parent undertaking Bradford & Bingley plc. Details of their interests in the ordinary shares of Bradford & Bingley plc are shown in the 2007 Annual Report of Bradford & Bingley plc

None of the Directors had any interest in the loan capital of Bradford & Bingley plc or any other interest in the share or loan capital of any of its subsidiaries

**Directors' Report for the year ended 31 December 2007 (continued)**

**Disclosure of information to auditors**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant information and to establish that the Company's auditors are aware of that information

**Risk management and control**

In the ordinary course of business the Company is exposed to, and manages, a variety of risks, with credit risk being of particular significance. The Directors have responsibility for the overall system of internal control and for reviewing its effectiveness. The effectiveness of the risk management is then monitored on an ongoing basis. Further details of the Company's risks and their management and control are provided in note 13. Further discussion in the context of the Bradford & Bingley plc Group as a whole is provided on pages 18-21 of that Group's 2007 Annual Report which does not form part of this Report and Financial Statements

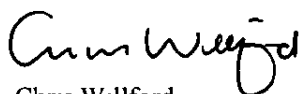
**Political and charitable contributions**

During the year no political or charitable contributions were made (2006 £nil)

**Auditor**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting

On behalf of the Board of Directors



Chris Willford  
Director

27th October 2008

## **Statement of Directors' Responsibilities**

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with IFRS as adopted by the EU and applicable laws.

The Financial Statements are required by law to present fairly the financial position and the performance of the Company, the Companies Act 1985 provides in relation to such Financial Statements that references in the relevant part of that Act to Financial Statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the 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 the Financial Statements 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 Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## **Independent Auditor's Report to the members of Bradford & Bingley Homeloans Management Ltd**

We have audited the Financial Statements of Bradford & Bingley Homeloans Management Limited for the year ended 31 December 2007 which comprise the Income Statement the Balance Sheet the Statement of Changes in Equity the Cash Flow Statement and the related notes These Financial Statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body in accordance with section 235 of the Companies Act 1985 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 auditor**

The Directors' responsibilities for preparing the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 6

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements

In addition we report to you if, in our opinion the Company has not kept proper accounting records if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the Financial Statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements

### **Opinion**

In our opinion

- the Financial Statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the Financial Statements

**Independent Auditor's Report to the members of Bradford & Bingley Homeloans Management Ltd (Continued)**

**Emphasis of matter**

In forming our opinion on the Financial Statements, which is not qualified we have considered the adequacy of the disclosures made within the basis of preparation section of the accounting policies concerning the existence of a material uncertainty considered by the Directors in preparing the Financial Statements which may cast significant doubt on the Company's ability to continue as a going concern. This results from the existence of a material going concern uncertainty in relation to the Company's ultimate parent undertaking, Bradford & Bingley plc. The Financial Statements do not include adjustments that would result if the Company was unable to continue to trade as a going concern.

*KPMG Audit Plc*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor

27 October 2008

1 The Embankment  
Neville Street  
Leeds  
LS1 4DW



**Income Statement for the year ended 31 December**

		2007	2006
	<i>Note</i>	£	£
Revenue		19,533,490	18,938,524
Cost of sales		<u>(19,322,421)</u>	<u>(18,780,050)</u>
<b>Gross profit</b>		<b>211,069</b>	<b>158,474</b>
Administrative expenses		<u>(161,069)</u>	<u>(109,355)</u>
Operating profit	2	<b>50,000</b>	<b>49,119</b>
<b>Profit before taxation</b>		<b>50,000</b>	<b>49,119</b>
Taxation	4	<u>(1,117,939)</u>	<u>(752,287)</u>
<b>Loss for the financial year</b>		<b><u>(1,067,939)</u></b>	<b><u>(703,168)</u></b>

The results above arise from the Company's single continuing activity and are attributable to the equity shareholders

The notes on pages 13 to 23 form part of these Financial Statements

## Balance Sheet as at 31 December

	Note	2007 £	2006 £
<b>Assets</b>			
Deferred tax asset	5	22,793	24,422
<b>Total non-current assets</b>		<b>22,793</b>	<b>24,422</b>
Amounts due from Group undertakings	8	70,201,229	55,603,153
Prepayments and accrued income		100	100
<b>Total current assets</b>		<b>70,201,329</b>	<b>55,603,253</b>
<b>Total assets</b>		<b>70,224,122</b>	<b>55,627,675</b>
<b>Current liabilities</b>			
Accruals and deferred income		201,675	118,401
Amounts due to Group undertakings	9	71,207,285	56,008,156
Current tax liability		1,118,787	736,804
<b>Total liabilities</b>		<b>72,527,747</b>	<b>56,863,361</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders:</b>			
Share capital	6	100	100
Retained earnings		(2,303,725)	(1,235,786)
<b>Total attributable equity</b>		<b>(2,303,625)</b>	<b>(1,235,686)</b>
<b>Total equity and liabilities</b>		<b>70,224,122</b>	<b>55,627,675</b>

The notes on pages 13 to 23 form part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on  
27th October 2008 and signed on its behalf by



Chris Willford  
Director

27th October 2008

## Statement of Changes in Equity for the year ended 31 December

	Share capital £	Retained earnings £	Total equity £
As at 1 January 2007	100	(1,235,786)	(1,235,686)
Loss for the year	-	(1,067,939)	(1,067,939)
As at 31 December 2007	<u>100</u>	<u>(2,303,725)</u>	<u>(2,303,625)</u>
As at 1 January 2006	100	(532,618)	(532,518)
Loss for the year	-	(703,168)	(703,168)
As at 31 December 2006	<u>100</u>	<u>(1,235,786)</u>	<u>(1,235,686)</u>

**Cash Flow Statement for the year ended 31 December**

	2007 £	2006 £
<b>Cash flows from operating activities</b>		
<b>Loss for the financial year</b>	<b>(1,067,939)</b>	<b>(703,168)</b>
<i>Adjustments for</i>		
Income tax expense	1,117,939	752,287
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>50,000</b>	<b>49,119</b>
<i>Net (increase)/decrease in operating assets</i>		
Prepayments and accrued income	-	13,446
Amounts due from Group undertakings	(14,598,076)	(12,837,170)
<i>Net increase/(decrease) in operating liabilities</i>		
Accruals and deferred income	83,274	5,644
Amounts due to Group undertakings	15,199,129	13,529,270
Income taxes paid	(734,327)	(760,309)
<b>Net cash from operating activities</b>	<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at beginning of year	-	-
<b>Cash and cash equivalents at end of year</b>	<b>-</b>	<b>-</b>

**Notes to the Financial Statements for the year ended 31 December 2007****1 Significant accounting policies**

Bradford & Bingley Homeloans Management Ltd ("the Company") is a limited company incorporated in the UK under the Companies Act 1985 and registered in England and Wales

**(a) Statement of compliance**

The Company's Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ( 'Adopted IFRS') The Company has adopted for the first time the following two statements issued by the IASB in August 2005 and mandatory for 2007 financial statements

- The Capital Disclosures amendment to IAS 1 "Presentation of Financial Statements", and
- IFRS 7 "Financial Instruments Disclosures"

These two statements relate to disclosures only, and adoption of them has had no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement

The Company has not adopted IFRS 8 "Operating Segments" issued by the IASB in November 2006 and mandatory for 2009 financial statements, this statement relates to disclosures only, and adoption would have no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement

The Financial Statements also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and other Accounting Amendments) Regulations 2004

**(b) Basis of preparation**

The Financial Statements are presented in pounds sterling, which is the currency of the Company's primary operating environment, and on a going concern basis

The Financial Statements have been prepared on the historical cost basis

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements These Financial Statements present information about the Company as an individual undertaking and not about its group

The Directors consider that the accounting policies set out below are the most appropriate to the Company's circumstances These accounting policies have been applied consistently to all periods presented in these Financial Statements

*Principles underlying going concern assumption*

The Financial Statements of the Company have been prepared on a going concern basis The validity of this assumption is dependent on the funding position of the Company's ultimate parent undertaking Bradford & Bingley plc At the date of approving these Financial Statements the financing facility provided to Bradford & Bingley plc by the Bank of England and the guarantee arrangements provided to Bradford & Bingley plc by HM Treasury are conditional upon approval by the European Commission under the State Aid rules Until such approval is granted, there is considered to be a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business, on the grounds that the financing facility and guarantee arrangements may be withdrawn in which case Bradford & Bingley plc may not be able to meet its financial or funding obligations to the Company and other Group companies This may have an impact on the recoverability of certain assets in the balance sheets of the companies in the Bradford & Bingley Group, including this Company, and also their own funding positions This would have a significant impact on the Company's operations and adjustments may have to be made to reduce the monetary value of assets to recoverable amounts and to provide for further liabilities that might arise

**Notes to the Financial Statements for the year ended 31 December 2007 (continued)****1. Significant accounting policies (continued)****(c) Revenue**

Revenue is recognised on an accruals basis as services are performed

**(d) 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 at the Balance Sheet date in accordance with IAS 12 "Income Taxes", 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.

**(e) Cash and cash equivalents**

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

**(f) Post-retirement benefits**

The Company operates a pension scheme with both defined contribution and defined benefit elements.

Contributions in respect of the defined contribution element are charged to the Income Statement in accordance with IAS 19 "Employee Benefits" as amended in December 2004.

The defined benefit element of the scheme is operated by the Company's parent, Bradford & Bingley plc. In accordance with IAS 19 "Employee Benefits" (amended 2004) the assets and liabilities of the scheme are recognised by Bradford & Bingley plc as the sponsoring employer of the scheme. It is not possible for the Company to identify its share of the scheme's overall assets and liabilities and so contributions to the scheme are accounted for as if it were a defined contribution scheme. Contributions to this element of the scheme will be determined using actuarial valuation methods which reflect the costs of providing pensions over the period benefiting from employee services.

**2. Operating profit**

	<b>2007</b>	2006
	<b>£</b>	<b>£</b>
Operating profit is stated after charging		
Staff costs (see note 3)	<b>5,757,572</b>	4,590,296
Auditor's remuneration for audit services	<u>-</u>	<u>-</u>

Auditor's remuneration of £6,747 in 2007 (2006 £6,500) was borne by Bradford & Bingley plc

**3. Staff costs and numbers**

	Full time		Part time		Full time Equivalents	
	2007	2006	2007	2006	2007	2006
The average number of persons employed by the Company	<b>155</b>	167	<b>66</b>	70	<b>198</b>	208

	<b>2007</b>	2006
	<b>£</b>	<b>£</b>
The aggregate costs of these persons were as follows		
Wages and salaries	<b>4,858,673</b>	3,822,340
Social security costs	<b>423,668</b>	317,394
Pension costs	<b>475,231</b>	450,562
	<u><b>5,757,572</b></u>	<u>4,590,296</u>

The remuneration of the Directors is provided by Bradford & Bingley Investments and no part of their remuneration is specifically attributable to their services to the Company.

## Notes to the Financial Statements for the year ended 31 December 2007 (continued)

<b>4 Taxation</b>	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Current taxation expense		
UK corporation tax on profits for the year	1,118,787	736,804
Adjustments in respect of previous years	<u>(2,477)</u>	<u>15,483</u>
Total current taxation	<u>1,116,310</u>	<u>752,287</u>
Deferred taxation expense		
Change in rate effective 1 April 2008 on deferred tax items	<u>1,629</u>	<u>-</u>
Total taxation expense per the Income Statement	<u><u>1,117,939</u></u>	<u><u>752,287</u></u>
	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Profit before taxation	<u>50,000</u>	<u>49,119</u>
UK corporation tax at 30%	<u>15,000</u>	<u>14,736</u>
Effects of		
Expenses not deductible for taxation	1,103,787	722,068
Change in rate effective 1 April 2008 on deferred tax items	1,629	-
Adjustments in respect of previous years	<u>(2,477)</u>	<u>15,483</u>
	<u><u>1,117,939</u></u>	<u><u>752,287</u></u>

## Notes to the Financial Statements for the year ended 31 December 2007 (continued)

## 5. Deferred taxation

The net deferred tax asset is attributable to the following

	Assets		(Liabilities)		Net	
	2007	2006	2007	2006	2007	2006
	£	£	£	£	£	£
Property, plant and equipment	-	-	(353)	(378)	(353)	(378)
Employee benefits	23,146	24,800	-	-	23,146	24,800
	<u>23,146</u>	<u>24,800</u>	<u>(353)</u>	<u>(378)</u>	<u>22,793</u>	<u>24,422</u>

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

	As at 1 Jan 2007	Recognised in income	As at 31 Dec 2007
	£	£	£
Property, plant and equipment	(378)	25	(353)
Employee benefits	24,800	(1,654)	23,146
	<u>24,422</u>	<u>(1,629)</u>	<u>22,793</u>

	As at 1 Jan 2006	Recognised in income	As at 31 Dec 2006
	£	£	£
Property, plant and equipment	(378)	-	(378)
Employee benefits	24,800	-	24,800
	<u>24,422</u>	<u>-</u>	<u>24,422</u>

## 6. Share capital

	2007 Shares	2006 Shares	2007 £	2006 £
<b>Ordinary shares of £1 each</b>				
Authorised				
'A' ordinary shares	49	49	49	49
'B' ordinary shares	51	51	51	51
As at 1 January and 31 December	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Issued and fully paid				
'A' ordinary shares	49	49	49	49
'B' ordinary shares	51	51	51	51
As at 1 January and 31 December	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The holders of the 'A' shares have the right to appoint an 'A' director and the holders of the 'B' shares have the right to appoint a 'B' director. The 'A' shares do not carry the right to vote to appoint or remove the 'B' director and the 'B' shares do not carry the right to vote to appoint or remove the 'A' director. Otherwise these shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up.



**Notes to the Financial Statements for the year ended 31 December 2007 (continued)****7 Related party disclosures**

The Company's key management personnel are its Directors. The Company had no transactions or balances with its key management personnel during the financial year or the preceding financial year.

Details of the Company's balances with other Group entities are provided in notes 8 and 9.

During the year and previous year the Company undertook transactions with companies within the Bradford & Bingley plc Group as follows:

	2007	2006
	£	£
Revenue	19,533,490	18,938,524
Cost of sales	12,792,382	13,578,333

**8. Amounts due from Group undertakings**

	2007	2006
	£	£
Amounts due from ultimate parent undertaking	29,117,329	29,235,639
Amounts due from associated undertaking	41,083,900	26,367,514
	70,201,230	55,603,153

The amounts due from Group undertakings are interest-free and repayable on demand.

**9. Amounts due to Group undertakings**

	2007	2006
	£	£
Amounts owed to associated undertaking	71,207,285	56,008,156

The amounts due to Group undertakings are interest-free and repayable on demand.

**10. Ultimate parent undertaking**

The Company's immediate parent undertaking is Bradford & Bingley plc, an undertaking incorporated in the United Kingdom and registered in England and Wales, in whose consolidated financial statements this Company is included and whose Report and Accounts can be obtained from the Company Secretary, Croft Road, Crossflatts, Bingley West Yorkshire BD16 2UA. During the year and previous year the Company regarded Bradford & Bingley plc as the Company's ultimate parent undertaking. As a result of The Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008, 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.

**11. Key sources of estimation uncertainty and judgements in application of accounting policies**

In preparation of the accounts estimates and assumptions are made which affect the reported amounts of assets and liabilities, estimates and assumptions are kept under continuous evaluation. Estimates and judgements are based on historical experience, expectations of future events and other factors. The principal estimates made by the Directors relate to the carrying value of investments, the Directors believe the carrying values to be fully supported by the investee entities' assets and cash flows.

## Notes to the Financial Statements for the year ended 31 December 2007 (continued)

## 12 Post-retirement benefits

The Company participates in the defined benefit pension scheme of its parent company, Bradford & Bingley plc. In accordance with IAS 19 "Employee Benefits" (amended 2004) the assets and liabilities of the scheme are recognised by Bradford & Bingley plc as the sponsoring employer of the scheme. Details of the parent company's schemes are as follows:

## (a) Pension schemes

The Bradford & Bingley Group ("the Group") operates a closed defined benefit staff pension scheme, the Bradford & Bingley Staff Pension Scheme ("the principal scheme"), which is administered by trustees. The funds are independent from those of the Group. The normal pension age of employees in the schemes 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 the year end (2006: £nil). The cost in the year to the Group of the defined contribution scheme was £1.4m (2006: £1.2m).

## (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 Group 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 2007 was 515 (2006: 557). Private medical costs are total number of members of the scheme as at 31 December 2007 was 515 (2006: 557). Private medical costs are assessed in accordance with the advice of a qualified actuary.

## Accounting treatment

The Group accounts for post-retirement benefit costs in accordance with IAS 19 (amended 2004). The full net actuarial deficit is carried on Bradford & Bingley plc's Balance Sheet, and actuarial gains and losses are taken to the Group's retained earnings rather than being charged or credited in the Income Statement. The actuarial gain recognised in the Group's retained earnings during the year was £53.3m (2006: £20.1m). More than one employing Group entity contributes to the pension 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 Bradford & Bingley plc (being the sponsoring entity) while other individual Group entities, in their individual Financial Statements, recognise a cost equal to their contributions payable for the period.

## Employee benefits obligations

The amounts carried in the Balance Sheet of Bradford & Bingley plc are as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total	Total
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Present value of obligations	586.8	621.9	11.0	10.6	597.8	632.5
Fair value of plan assets	(575.8)	(549.3)	-	-	(575.8)	(549.3)
Net liability	11.0	72.6	11.0	10.6	22.0	83.2
Amounts carried in the Balance Sheet						
Liabilities	11.0	72.6	11.0	10.6	22.0	83.2
Net liability	11.0	72.6	11.0	10.6	22.0	83.2

## Notes to the Financial Statements for the year ended 31 December 2007 (continued)

## 12 Post-retirement benefits (continued)

The amounts recognised in the Group Income Statement at 31 December are as follows,

	Defined benefit pension plans		Post-retirement medical benefits		Total	Total
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Current service cost	7.5	7.5	0.1	0.1	7.6	7.6
Interest on plan obligations	29.9	28.3	0.5	0.4	30.4	28.7
Expected return on plan assets	(34.4)	(29.1)	-	-	(34.4)	(29.1)
	<b>3.0</b>	<b>6.7</b>	<b>0.6</b>	<b>0.5</b>	<b>3.6</b>	<b>7.2</b>
Actual return on plan assets	27.5	45.7	-	-	27.5	45.7

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

	Defined benefit pension plans		Post-retirement medical benefits		Total	Total
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Opening defined benefit obligations	621.9	604.2	10.6	8.7	632.5	612.9
Current service cost	7.5	7.5	0.1	0.1	7.6	7.6
Contributions by employees	0.9	0.9	-	-	0.9	0.9
Interest on plan obligations	29.9	28.3	0.5	0.4	30.4	28.7
Actuarial (gain)/loss	(60.4)	(5.3)	0.2	1.8	(60.2)	(3.5)
Benefits paid	(13.0)	(13.7)	(0.4)	(0.4)	(13.4)	(14.1)
Closing defined benefit obligations	<b>586.8</b>	<b>621.9</b>	<b>11.0</b>	<b>10.6</b>	<b>597.8</b>	<b>632.5</b>

Changes in the fair value of plan assets were as follows

	Defined benefit pension plans		Post-retirement medical benefits		Total	Total
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Opening fair value of plan assets	549.3	500.7	-	-	549.3	500.7
Expected return on plan assets	34.4	29.1	-	-	34.4	29.1
Contributions by employing entities	11.0	14.9	0.4	0.4	11.4	15.3
Contributions by employees	0.9	0.9	-	-	0.9	0.9
Actuarial (loss)/gain	(6.9)	16.6	-	-	(6.9)	16.6
Benefits paid	(12.9)	(12.9)	(0.4)	(0.4)	(13.3)	(13.3)
Closing fair value of plan assets	<b>575.8</b>	<b>549.3</b>	<b>-</b>	<b>-</b>	<b>575.8</b>	<b>549.3</b>

The Group expects to contribute £10.1m to its defined benefit pension plans in 2008

## Notes to the Financial Statements for the year ended 31 December 2007 (continued)

## 12 Post-retirement benefits (continued)

The major categories of plan assets as a percentage of total plan assets are as follows

	2007	2006
Equities	44%	47%
Property	15%	15%
Bonds	27%	7%
Gilts	6%	26%
Cash and other	8%	5%
Total	100%	100%

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

	2007	2006
<b>To determine benefit obligations</b>		
Discount rate at 31 December	5.8%	5.1%
Future pension increases	3.4%	3.1%
Rate of salary increase	5.4%	5.1%
<b>To determine the net pension cost</b>		
Expected return on plan assets	6.3%	5.8%
Discount rate	5.1%	4.7%
Rate of salary increase	5.1%	4.8%
<b>For post-retirement medical plan</b>		
Discount rate	5.8%	5.1%
Inflation	3.4%	3.1%
Medical cost trend for 2007	6.5%	7.3%
Medical cost trend falling linearly 2008 - 2009	6.5% to 5.5%	7.3% to 4.5%
Medical cost trend falling linearly 2010 - 2011	5.5%	5.9% to 4.5%
Medical cost trend from 2012	5.5%	4.5%

In determining the expected long-term return on plan assets Bradford & Bingley plc 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 of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

The principal assumptions made on life expectancy were for active members to use PA92 (YOB) base rated up by 2 years and for retired members PA92 (YOB) base rated up by 2 years. As an illustration of the mortality rates used, the future life expectancies from age 60 are shown below.

	Males	Females
Non-retired members' life mortality*	25.9	28.7
Retired members' life expectancy**	23.8	26.8

\* based on 1965 year of birth

\*\* based on 1935 year of birth

Sensitivity: the following table illustrates the sensitivity of the pension scheme defined benefit obligation to four key assumptions: the discount rate, the rate of inflation, the rate of salary growth and the mortality assumption.

Assumption	Change in Assumption	Impact on Benefit Obligation
Discount rate	Decrease by 0.5%	Increase by 11.9%
Inflation	Increase by 0.5%	Increase by 10.4%
Salary growth above inflation	Increase by 0.5%	Increase by 1.8%
Mortality	Decrease by 1 year	Increase by 2.3%

If the assumptions were to change by the same amount in the opposite direction to those illustrated, the benefit obligation would decrease by a similar percentage to those shown in the table in each case.

## Notes to the Financial Statements for the year ended 31 December 2007 (continued)

## 12 Post-retirement benefits (continued)

Assumed healthcare cost trend rates have an effect on the amounts recognised in staff costs. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	2007	2006
	£m	£m
Effect on the aggregate of service cost and interest cost	0.1	0.1
Effect on defined benefit obligations	1.9	1.9

	2007	2006
	£m	£m
Experience adjustments on post-retirement medical plan liabilities	0.1	0.1

## Notes to the Financial Statements for the year ended 31 December 2007 (continued)

## 13. Financial instruments

## a) Fair values of financial assets and financial liabilities as at 31 December

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets	£	£	£	£
Amounts due from Group undertakings	70,201,229	70,201,229	55 603 153	55 603 153
Financial liabilities				
Amount due to Group undertakings	71,207,285	71,207,285	56 008,156	56 008 156

No financial assets or liabilities are categorised as available for sale or at fair value through profit or loss, but their fair values approximate to their carrying values

## b) Nature and extent of risks arising from financial instruments

## (i) Credit risk

The main financial risk arising from the Company's activities is credit risk

Credit risk is the risk that a counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company. The Company is exposed to credit risk via amounts due from Group undertakings

The maximum exposure to credit risk is represented by the carrying amount of each financial asset

The maximum exposure to credit risk as at 31 December was

	2007 £	2006 £
Amounts due from Group undertakings	70,201,229	55 603 153
Total on Balance Sheet and maximum exposure to credit risk	70,201,229	55,603,153

## (ii) Liquidity risk

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

2007			
	On demand £	<3 months £	Total £
Accruals and deferred income	-	201,675	201,675
Amounts due to ultimate parent undertaking	71,207,285	-	71,207,285
Total financial liabilities	71,207,285	201,675	71,408,960

2006			
	On demand £	<3 months £	Total £
Accruals and deferred income	-	118,401	118,401
Amounts due to ultimate parent undertaking	56 008,156	-	56 008,156
Total financial liabilities	56,008 156	118 401	56,126,557

## (iii) Other market risks

At 31 December 2006 and 31 December 2007 the Company had no other material exposure to market risks

## (iv) Currency risk

At 31 December 2006 and 31 December 2007 the Company had no exposure to foreign exchange fluctuations as there were no assets or liabilities denominated in foreign currencies

## (v) Concentrations of risk

The Company operates primarily in the United Kingdom and adverse changes to the UK economy could impact areas of the Company's business

**Notes to the Financial Statements for the year ended 31 December 2007 (continued)**

**14 Capital structure**

The Company's capital is represented by the capital and reserves attributable to equity holders. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies. The Company manages its capital and reserves in order that there is sufficient capital to meet the needs of the Company in its operations.

**15 Events after the Balance Sheet date**

As described in note 10 all shares in the Company's ultimate parent undertaking Bradford & Bingley plc were transferred to the Treasury Solicitor as nominee for HM Treasury on 29 September 2008 under the terms of the Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008, and the Company considers Her Majesty's Government to be the ultimate controlling party from that date.