

# **Alltel Mortgage Solutions Limited**

Directors' Report and Financial Statements

Registered number 3960644

31 December 2008

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**Directors' Report and Financial Statements**

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**Company Information**

**Directors**

John Barnetson Anderson  
Paul Martin Hopkinson (appointed 30 June 2009)

**Secretary**

John Gornall

**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 2008

The Directors present their Report and Financial Statements for the year ended 31 December 2008.

### Principal activities and business review

Alltel Mortgage Solutions Limited ("the Company") is a limited liability 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 operated through an agreement with its immediate parent undertaking Bradford & Bingley Investments. Bradford & Bingley Investments is a wholly owned subsidiary of Bradford & Bingley plc.

The Company's principal activities consist of providing consulting and other support services to its investee Bradford & Bingley Homeloans Management Limited and providing other additional consulting services to Bradford & Bingley plc and Mortgage Express. As at 1 January 2009, they ceased to provide consultancy services to Bradford & Bingley plc and Mortgage Express.

The results for the year are shown in the Income Statement on page 9. The profit after taxation was £2,903 (2007: £188,890). Gross profit for the year decreased to £11,076,722 (2007: £11,542,311). During 2008, the amount of project resource qualifying for recharge to Bradford & Bingley plc reduced, in turn reducing the income stream from Bradford & Bingley plc.

The key KPIs for the Company are staff productivity and staff utilisation. However, these are not recorded at this Company level, instead being aggregated within Bradford & Bingley plc.

### Dividends

No dividends were paid during the year (2007: £nil) and the Directors do not recommend payment of a final dividend (2007: £nil).

### 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

The Directors who served during the year were as follows:

Havana Aman Abid	(resigned 30 June 2009)
John Barnetson Anderson	(appointed 4 September 2008)
Robert Stewart Dickie	(resigned 21 April 2008)
Mark Stevens	(resigned 4 September 2008)
Christopher Patrick Willford	(resigned 30 June 2009)

None of the Directors held any interest in the ordinary shares of the Company during the year or the preceding year. Mr Dickie, Mr Stevens and Mr Willford 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 2008 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 2008 (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 they ought to have taken as a Director to make themselves 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. Details of the Company's risks and their management and control are provided in note 18. The Company's operations are subject to periodic review by the Bradford & Bingley plc internal audit department.

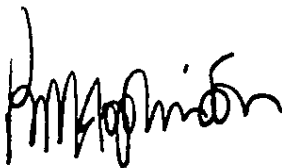
**Political and charitable contributions**

During the year no political or charitable contributions were made (2007: £nil).

**Auditor**

KPMG Audit plc have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the next Annual General Meeting.

By order of the Board of Directors



Paul Hopkinson  
Director

17 September

2009

**Statement of Directors' Responsibilities in respect of the Directors' Report and Financial Statements**

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 the Directors have elected to prepare the Financial Statements in accordance with IFRS as adopted by the EU and applicable law.

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 these 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 which enable them to ensure that the 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 Alltel Mortgage Solutions Limited**

We have audited the Financial Statements of Alltel Mortgage Solutions Limited for the year ended 31 December 2008 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 auditors' 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 or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

### **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.

**Independent Auditor's Report to the members of Alltel Mortgage Solutions Limited (continued)**

**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 2008 and its profit 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 Financial Statements.

**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

*23 Sept* 2009

1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

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

	<i>Note</i>	<b>2008</b> £	<b>2007</b> £
Revenue		15,910,465	16,238,738
Cost of sales		(4,833,743)	(4,696,427)
<b>Gross profit</b>		<u>11,076,722</u>	<u>11,542,311</u>
Administrative expenses		(10,947,323)	(10,433,800)
Operating profit	2	<u>129,399</u>	<u>1,108,511</u>
<b>Profit before taxation</b>		129,399	1,108,511
Taxation	4	(126,496)	(919,621)
<b>Profit for the financial year</b>		<u><u>2,903</u></u>	<u><u>188,890</u></u>

The above results arise from the Company's single continuing activity and are attributable to the equity shareholders. The Company operates in a single business segment, and all of the Company's activities are in the United Kingdom.

The notes on pages 13 to 24 form part of these Financial Statements.

## Balance Sheet at 31 December

	Note	2008 £	2007 £
<b>Assets</b>			
Property, plant and equipment	5	1,696	803,749
Intangible assets	6	-	21,765,819
Shares in Group undertakings	7	49	49
Deferred tax assets	8	3,206,464	1,871,211
<b>Total non-current assets</b>		<u>3,208,209</u>	<u>24,440,828</u>
Amounts due from Group undertakings	14	119,443,044	96,419,880
<b>Total current assets</b>		<u>119,443,044</u>	<u>96,419,880</u>
<b>Total assets</b>		<u>122,651,253</u>	<u>120,860,708</u>
<b>Liabilities</b>			
Accruals and deferred income	9	1,685,512	1,139,464
Current tax liabilities		108,770	633,030
Amounts due to Group undertakings	15	118,544,659	116,778,805
<b>Total current liabilities</b>		<u>120,338,941</u>	<u>118,551,299</u>
<b>Total liabilities</b>		<u>120,338,941</u>	<u>118,551,299</u>
<b>Equity</b>			
Capital and reserves attributable to equity holders:			
Share capital	10	1,000	1,000
Retained earnings		2,311,312	2,308,409
<b>Total attributable equity</b>		<u>2,312,312</u>	<u>2,309,409</u>
<b>Total equity and liabilities</b>		<u>122,651,253</u>	<u>120,860,708</u>

The notes on pages 13 to 24 form part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on  
signed on its behalf by:

17 September

2009 and

Paul Hopkinson  
Director



17 September

2009

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

	Share capital £	Retained earnings £	Total equity £
At 1 January 2008	1,000	2,308,409	2,309,409
Profit for the financial year	-	2,903	2,903
At 31 December 2008	<u>1,000</u>	<u>2,311,312</u>	<u>2,312,312</u>
	£	£	£
At 1 January 2007	1,000	2,119,519	2,120,519
Profit for the financial year	-	188,890	188,890
At 31 December 2007	<u>1,000</u>	<u>2,308,409</u>	<u>2,309,409</u>

## Cash Flow Statement for the year ended 31 December

	2008 £	2007 £
<b>Cash flows from operating activities</b>		
<b>Profit for the financial year</b>	<b>2,903</b>	<b>188,890</b>
<i>Adjustments for:</i>		
Income tax expense	126,496	919,621
Depreciation and amortisation	4,592,538	9,445,461
Loss on sale of property, plant and equipment and intangible assets	-	21,867
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>4,721,937</b>	<b>10,575,839</b>
<i>Net increase in operating assets:</i>		
Amounts due from Group undertakings	(23,023,164)	(20,562,159)
<i>Net increase in operating liabilities:</i>		
Accruals and deferred income	546,048	87,722
Amounts due to Group undertakings	1,765,854	10,006,263
<b>Cash generated from operations</b>	<b>(15,989,325)</b>	<b>107,665</b>
Income taxes (paid)/received	(1,986,009)	163,097
<b>Net cash from operating activities</b>	<b>-</b>	<b>270,762</b>
<i>Cash flows from investing activities:</i>		
Purchase of property, plant and equipment and intangible assets	-	(274,254)
Proceeds from sale of property, plant and equipment and intangible assets	-	3,492
<b>Net cash from investing activities</b>	<b>-</b>	<b>(270,762)</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 2008

### 1. Principal accounting policies

Alltel Mortgage Solutions Ltd ("the Company") is a limited liability company incorporated in the United Kingdom 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").

In 2008 the Company has not adopted the February 2008 amendment to IAS 1 "Presentation of Financial Statements" or IFRS 8 "Operating Segments" issued by the IASB in November 2006. They are both mandatory for 2009 financial statements; these statements relate 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 Accounting Amendments) Regulations 2004.

#### (b) Basis of preparation

The Financial Statements are prepared on the historical cost basis and on a going concern basis.

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

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in note 17.

The Directors consider that the accounting policies set out below are the most appropriate to the Company's circumstances.

#### 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 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.

#### (c) Revenue recognition

Revenue consists of management fees and consulting fees and is attributable to the Company's principal activities of providing consulting and other support services. All revenue is earned within the United Kingdom.

## Notes to the Financial Statements for the year ended 31 December 2008 (continued)

## 1. Principal accounting policies (continued)

## (d) 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 lease period on a straight line basis.

## (e) 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.

## (f) Property, plant and equipment

Property, plant and equipment are shown at cost net of depreciation and any provision for 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:

Leasehold improvements	shorter of the term of lease and 50 years on a straight line basis
Motor vehicles	25% reducing balance basis
Fixtures and fittings	20% straight line basis

## (g) Intangible assets

Computer software licences are capitalised as intangible assets where it is probable that expected future benefits will flow to the Company. 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.

## (h) Shares in Group undertakings

Shares in Group undertakings are carried at cost less any impairment, as required by IAS 27 "Consolidated and Separate Financial Statements". Shares are reviewed at each published Balance Sheet date for any indication of impairment, in accordance with IAS 36 "Impairment of Assets". If there is any indication of impairment of any share, the carrying value of the share is reviewed, and any impairment identified is charged immediately in the Income Statement.

## (i) 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.

## Notes to the Financial Statements for the year ended 31 December 2008 (continued)

## 1. Significant accounting policies (continued)

## (j) 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".

The defined benefit element of the scheme is operated by the Company's ultimate parent undertaking, Bradford & Bingley plc. In accordance with IAS 19 "Employee Benefits" 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

Operating profit is stated after charging:	2008	2007
	£	£
Staff costs (see note 3)	1,104,227	1,953,270
Property operating lease rentals	999,658	985,520
Depreciation and amortisation (see notes 5 and 6)	4,592,538	9,445,461
Impairment of property, plant and equipment and intangible assets (see notes 5 and 6)	17,975,334	-

Auditor's remuneration of £7,051 (2007: £6,747) was borne by the Company's ultimate parent undertaking Bradford & Bingley plc.

## 3. Staff costs and numbers

	2008	2007
The average number of persons employed by the Company was:	Number	Number
Full time	14	17
Part time	3	3
Full time equivalent	16	19
The aggregate costs of these persons were as follows:	2008	2007
	£	£
Wages and salaries	917,158	1,737,385
Social security costs	72,030	87,145
Pension costs	115,039	128,740
	<u>1,104,227</u>	<u>1,953,270</u>

The remuneration of the Directors is provided by Bradford & Bingley plc 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 2008 (continued)

## 4. Taxation

	2008 £	2007 £
Current taxation charge:		
UK corporation tax on profits for the year	108,771	633,031
Adjustments in respect of previous years	1,352,978	1,247,398
Total current taxation	1,461,749	1,880,429
Deferred taxation expense:		
Origination and reversal of temporary differences	(1,335,253)	(1,094,466)
Change in rate effective 1 April 2008 on deferred tax items	-	133,658
Total taxation expense per the Income Statement	126,496	919,621
Profit before taxation	129,399	1,108,511
UK corporation tax at 28.5% (2007: 30%)	36,875	332,553
Effects of:		
Expenses not deductible for taxation	-	395,172
Change in rate effective 1 April 2008 on deferred tax items	1,254	133,658
Adjustments in respect of previous years	88,367	58,238
Total taxation expense per the Income Statement	126,496	919,621

## 5. Property, plant and equipment

	Leasehold improvements £	Motor vehicles £	Fixtures and fittings £	Total £
<b>Cost</b>				
As at 1 January 2008	1,198,559	-	2,427,021	3,625,580
Disposals	(2,835)	-	(510,472)	(513,307)
Written off	-	-	(748,985)	(748,985)
As at 31 December 2008	1,195,724	-	1,167,564	2,363,288
As at 1 January 2007	1,198,559	8,101	2,382,896	3,589,556
Purchases	-	-	67,188	67,188
Disposals	-	(8,101)	-	(8,101)
Transfers	-	-	(23,063)	(23,063)
As at 31 December 2007	1,198,559	-	2,427,021	3,625,580
<b>Depreciation</b>				
As at 1 January 2008	903,026	-	1,918,805	2,821,831
Depreciation charge for the year	114,399	-	124,975	239,374
Impairment	181,134	-	381,545	562,679
Disposals	(2,835)	-	(510,472)	(513,307)
Written off	-	-	(748,985)	(748,985)
As at 31 December 2008	1,195,724	-	1,165,868	2,361,592
As at 1 January 2007	788,311	5,538	1,512,945	2,306,794
Depreciation charge for the year	114,715	267	338,860	453,842
Purchases	-	-	67,000	67,000
Disposals	-	(5,805)	-	(5,805)
As at 31 December 2007	903,026	-	1,918,805	2,821,831
<b>Net book value</b>				
As at 1 January 2007	410,248	2,563	869,951	1,282,762
As at 31 December 2007	295,533	-	508,216	803,749
As at 1 January 2008	295,533	-	508,216	803,749
As at 31 December 2008	-	-	1,696	1,696

Leasehold improvements and some fixtures and fittings, specifically head office equipment and infrastructure, have been written down to zero, resulting in an impairment charge of £562,679 to reflect the ongoing economic value in use and future obsolescence of these assets in light of the developments in business operations and future strategy of the business.

## Notes to the Financial Statements for the year ended 31 December 2008 (continued)

6. Intangible assets	Software £	Development costs £	Total £
<b>Cost</b>			
As at 1 January 2008	44,190,369	-	44,190,369
Disposals	(497,360)	-	(497,360)
Written off	(34,026,357)	-	(34,026,357)
As at 31 December 2008	9,666,652	-	9,666,652
As at 1 January 2007	43,916,303	67,000	43,983,303
Purchases	274,066	-	274,066
Disposals	-	(67,000)	(67,000)
As at 31 December 2007	44,190,369	-	44,190,369
<b>Amortisation</b>			
As at 1 January 2008	22,424,550	-	22,424,550
Amortisation	4,353,164	-	4,353,164
Impairment	17,412,655	-	17,412,655
Disposals	(497,360)	-	(497,360)
Written off	(34,026,357)	-	(34,026,357)
As at 31 December 2008	9,666,652	-	9,666,652
As at 1 January 2007	13,432,931	67,000	13,499,931
Amortisation charge for the year	8,991,619	-	8,991,619
Disposals	-	(67,000)	(67,000)
As at 31 December 2007	22,424,550	-	22,424,550
<b>Net book value</b>			
As at 1 January 2007	30,483,372	-	30,483,372
As at 31 December 2007	21,765,819	-	21,765,819
As at 1 January 2008	21,765,819	-	21,765,819
As at 31 December 2008	-	-	-

It was deemed that intangible software with a book value of £17,412,655 was fully impaired and written down to zero to reflect the ongoing economic value in use and future obsolescence of those assets in light of the developments in business operations and future strategy of the business.

## 7. Shares in Group undertakings

	Country of incorporation and operation	Principal activity	Holding	%
Bradford & Bingley Homeloans Management Limited	United Kingdom	Residential loan origination and processing services to Bradford & Bingley plc and Mortgage Express	Direct	49

# Notes to the Financial Statements for the year ended 31 December 2008 (continued)

## 8. Deferred tax

The net deferred tax asset is attributable to accelerated capital allowances:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	£	£	£	£	£	£
Property, plant and equipment	3,206,464	1,871,211	-	-	3,206,464	1,871,211
	<u>3,206,464</u>	<u>1,871,211</u>	<u>-</u>	<u>-</u>	<u>3,206,464</u>	<u>1,871,211</u>

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

	As at 1 January 2008 £	Recognised in income £	As at 31 December 2008 £
Property, plant and equipment	1,871,211	1,335,253	3,206,464
	<u>1,871,211</u>	<u>1,335,253</u>	<u>3,206,464</u>

	As at 1 January 2007 £	Recognised in income £	As at 31 December 2007 £
Property, plant and equipment	910,403	960,808	1,871,211
	<u>910,403</u>	<u>960,808</u>	<u>1,871,211</u>

## 9. Accruals and deferred income

	2008 £	2007 £
Accruals - current	1,685,512	1,139,464
	<u>1,685,512</u>	<u>1,139,464</u>

## 10. Share capital

	2008 Shares	2007 Shares	2008 £	2007 £
<b>Ordinary shares of £1 each</b>				
Authorised:				
'A' ordinary shares	251	251	251	251
'B' ordinary shares	749	749	749	749
As at 1 January and 31 December	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Issued and fully paid:				
'A' ordinary shares	251	251	251	251
'B' ordinary shares	749	749	749	749
As at 1 January and 31 December	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</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 2008 (continued)

**11. Operating lease commitments**

	2008	2007
	£	£
The amounts of rentals payable under non-cancellable operating leases are as follows:		
Payable in less than one year	816,199	792,428
Payable in between one and five years	3,517,438	3,414,893
Payable after more than five years	1,426,392	2,372,658
<b>Total payable</b>	<b>5,760,029</b>	<b>6,579,979</b>

These operating leases relate to land and buildings and equipment.

**12. 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 proceeding financial year.

Details of the Company's balances with other Group entities are provided in notes 14 and 15.

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

	2008	2007
	£	£
Revenue	15,910,465	16,238,738
Cost of sales	1,058,137	1,045,520

Auditor's remuneration of £7,051 (2007: £6,747) was borne by the Company's ultimate parent undertaking Bradford & Bingley plc.

**13. Parent undertaking**

The Company's immediate parent undertaking is Bradford & Bingley Investments, an unlimited 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, a public company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales. Bradford & Bingley plc heads the largest and smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of Bradford & Bingley plc may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

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.

**14. Amounts due from Group undertakings**

	2008	2007
	£	£
Amounts due from Group undertakings	119,443,044	96,419,880

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

**15. Amounts due to Group undertakings**

	2008	2007
	£	£
Amounts due to Group undertakings	118,544,659	116,778,805

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

## Notes to the Financial Statements for the year ended 31 December 2008 (continued)

## 16. 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 Bradford & Bingley plc's schemes are as follows:

## (a) Pension schemes

The Bradford & Bingley plc 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 cost in the year to the Group of the defined contribution scheme was £1.7m (2007: £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 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 2008 was 411 (2007: 515). 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 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. The full net actuarial deficit is carried on Bradford & Bingley plc's balance sheet, and actuarial gains and losses are taken to Group retained earnings rather than being charged or credited to 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 retained earnings during the year was £17.8m (2007: 53.3m gain).

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.

## (d) Employee benefit obligations

The amounts carried in the balance sheet of Bradford & Bingley plc are as follows:

	Defined benefit pension plans		Post-retirement medical benefits		Total
	2008	2007	2008	2007	
	£m	£m	£m	£m	£m
Present value of obligations	480.5	586.8	9.2	11.0	489.7
Fair value of plan assets	(485.3)	(575.8)	-	-	(485.3)
IFRIC 14 restriction	4.8	-	-	-	4.8
Net liability	-	11.0	9.2	11.0	22.0
Amounts carried in the balance sheet:					
Liabilities	-	11.0	9.2	11.0	22.0

## Notes to the Financial Statements for the year ended 31 December 2008 (continued)

## 16. Post-retirement benefits (continued)

The amounts recognised in the Group income statement are as follows:

	Defined benefit pension plans		Post-retirement medical benefits			Total
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m
Current service cost	4.8	7.5	0.1	0.1	4.9	7.6
Interest on plan obligations	34.5	29.9	0.6	0.5	35.1	30.4
Expected return on plan assets	(37.6)	(34.4)	-	-	(37.6)	(34.4)
	1.7	3.0	0.7	0.6	2.4	3.6
Gains on curtailments (i)	(22.3)	-	(0.8)	-	(23.1)	-
	(20.6)	3.0	(0.1)	0.6	(20.7)	3.6
Actual return on plan assets	(78.1)	27.5	-	-	(78.1)	27.5

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

	Defined benefit pension plans		Post-retirement medical benefits			Total
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m
Opening defined benefit obligations	586.8	621.9	11.0	10.6	597.8	632.5
Current service cost	4.8	7.5	0.1	0.1	4.9	7.6
Contributions by employees	0.8	0.9	-	-	0.8	0.9
Interest on plan obligations	34.5	29.9	0.6	0.5	35.1	30.4
Actuarial (gain)/loss	(101.5)	(60.4)	(1.3)	0.2	(102.8)	(60.2)
Gain on curtailment (i)	(22.3)	-	(0.8)	-	(23.1)	-
Obligation transfer (ii)	(3.9)	-	-	-	(3.9)	-
Benefits paid	(18.7)	(13.0)	(0.4)	(0.4)	(19.1)	(13.4)
Closing defined benefit obligations	480.5	586.8	9.2	11.0	489.7	597.8

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

	Defined benefit pension plans		Post-retirement medical benefits			Total
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m
Opening fair value of plan assets	575.8	549.3	-	-	575.8	549.3
Expected return on plan assets	37.6	34.4	-	-	37.6	34.4
Contributions by employing entities	9.3	11.0	0.4	0.4	9.7	11.4
Contributions by employees	0.8	0.9	-	-	0.8	0.9
Actuarial loss	(115.7)	(6.9)	-	-	(115.7)	(6.9)
Asset transfer (ii)	(4.0)	-	-	-	(4.0)	-
Benefits paid	(18.5)	(12.9)	(0.4)	(0.4)	(18.9)	(13.3)
Closing fair value of plan assets	485.3	575.8	-	-	485.3	575.8

## Notes to the Financial Statements for the year ended 31 December 2008 (continued)

## 16. Post-retirement benefits (continued)

## (i) Gain on curtailment

Employees who transferred to Abbey National plc ("Abbey") as a consequence of Bradford & Bingley plc's sale of its savings business on 29 September 2008 and who were members of the defined benefit scheme became deferred members as the date of the transfer. The curtailment gain of £23.1m arising on this event has 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. Employees of Bradford & Bingley International Limited who were members of the defined benefit scheme remain member of the scheme but the pension obligations and assets relating to those employees has been transferred to Abbey with effect from 29 September 2008.

The Group expects to contribute £6.9m to its defined benefit pension plans in 2009.

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

	2008	2007
Equities	34%	44%
Property	10%	15%
Bonds	25%	27%
Gilts	13%	6%
Cash and other	18%	8%
Total	100%	100%

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

	2008	2007
<b>To determine benefit obligations</b>		
Discount rate at 31 December	6.3%	5.8%
Future pension increases	3.0%	3.4%
Rate of salary increase	5.0%	5.4%
<b>To determine the net pension cost</b>		
Expected return on plan assets	6.8%	6.3%
Discount rate	6.3%	5.1%
Rate of salary increase	5.4%	5.1%
<b>For post-retirement medical plan</b>		
Discount rate	6.3%	5.8%
Inflation	3.0%	3.4%
Medical cost trend for next financial year	6.0%	6.5%
Medical cost trend falling linearly for subsequent 2 years	6.0%	6.5% to 5.5%
Medical cost trend thereafter	6.0%	5.5%

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 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.

# Notes to the Financial Statements for the year ended 31 December 2008 (continued)

## 16. Post-retirement benefits (continued)

The principal assumption made on life expectancy for active and retired members was to use 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 expectancy*	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 or increase 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:

	2008	2007
	£m	£m
Effect on the aggregate of service cost and interest cost	0.1	0.1
Effect on defined benefit obligations	1.5	1.9

## 17. Critical accounting judgements and estimates

In preparation of the Company's Financial Statements judgements and estimates are made which affect the reported amounts of assets and liabilities; judgements and estimates are kept under continuous evaluation. Judgements and estimates are based on historical experience, expectations of future events and other factors. The amounts due from Group undertakings are not considered to be impaired. At 31 December 2008 there were no other critical accounting judgements or estimates (2007: none).

## Notes to the Financial Statements for the year ended 31 December 2008 (continued)

## 18. Financial instruments

## (a) Fair values of financial assets and financial liabilities as at 31 December 2008

	Loans and receivables £	Total carrying value £	Fair value £	If fair values increased by 1% £
Amounts due from Group undertakings	119,443,044	119,443,044	119,443,044	1,194,430
<b>Total financial assets</b>	<b>119,443,044</b>	<b>119,443,044</b>	<b>119,443,044</b>	<b>1,194,430</b>

	Liabilities at amortised cost £	Total carrying value £	Fair value £	If fair values increased by 1% £
Amounts due to Group undertakings	118,544,659	118,544,659	118,544,659	1,185,447
Accruals and deferred income	1,685,512	1,685,512	1,685,512	16,855
<b>Total financial liabilities</b>	<b>120,230,171</b>	<b>120,230,171</b>	<b>120,230,171</b>	<b>1,202,302</b>

At 31 December 2007

	Loans and receivables £	Total carrying value £	Fair value £	If fair values increased by 1% £
Amounts due from Group undertakings	96,419,880	96,419,880	96,419,880	964,199
<b>Total financial assets</b>	<b>96,419,880</b>	<b>96,419,880</b>	<b>96,419,880</b>	<b>964,199</b>

	Liabilities at amortised cost £	Total carrying value £	Fair value £	If fair values increased by 1% £
Amounts due to Group undertakings	116,778,805	116,778,805	116,778,805	1,167,788
Accruals and deferred income	1,139,464	1,139,464	1,139,464	11,395
<b>Total financial liabilities</b>	<b>117,918,269</b>	<b>117,918,269</b>	<b>117,918,269</b>	<b>1,179,183</b>

No financial assets or liabilities are carried at fair value, but their fair values approximate to their carrying values.  
No financial asset is considered to be impaired.

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

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:

	2008 £	2007 £
Amounts due from Group undertakings	119,443,044	96,419,880
<b>Total on Balance Sheet, and maximum exposure to credit risk</b>	<b>119,443,044</b>	<b>96,419,880</b>

## (c) Concentrations of risk

97% of the Company's assets comprise debtors due from Group undertakings of which £86,540,775 is due from one entity.

## (d) Other market risks

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