

Bradford & Bingley Funding No. 2 Limited

Directors' Report and Financial Statements

Registered number: 4868346

31 December 2007

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Directors' Report and Financial Statements

Contents	Page
Company Information	3
Directors' Report	4 - 5
Statement of Directors' Responsibilities	6
Independent Auditor's Report	7 - 8
Income Statement	9
Balance Sheet	10
Statement of Changes in Equity	11
Cash Flow Statement	12
Notes to the Financial Statements	13 - 19

Company Information

Directors

Christopher Patrick Willford
Peter John Green

Secretary

Paul Martin Hopkinson

Registered Office

Croft Road
Crossflatts
Bingley
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 Funding No 2 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 principal activity during the year was that of supporting the funding requirements of the Company's ultimate parent undertaking Bradford & Bingley plc, a public company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales. References to "Group" refer to Bradford & Bingley plc and its subsidiaries.

Business review

The results for the year are shown in the Income Statement on page 9. The profit for the year after taxation was £16,056,288 (2006 £15,813,094). On 1 October 2008 the Company extended its loan with its ultimate parent undertaking and redeemed the outstanding balance with its third party depositor.

Dividends

No dividends were paid during the year or preceding year and the Directors do not recommend the payment of a final dividend (2006 £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 during the year

The Directors who served during the year were as follows:

Christopher Patrick Willford (appointed 9 January 2007)
Christopher Donald Gillespie (resigned 9 January 2007)
Peter John Green

None of the Directors held any interest in the ordinary shares of the Company during the year.

Mr Gillespie and Mr Willford were Directors of Bradford & Bingley plc during the year and their interests in the ordinary shares of that company are shown in the annual report and accounts of Bradford & Bingley plc.

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

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 audit 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 and liquidity risk being of particular significance. The Directors have responsibility for the overall system of internal control and for reviewing its effectiveness. In general, when a transaction or group of transactions is entered into, derivative instruments are taken out to manage the associated risks. 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 13, and 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.

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

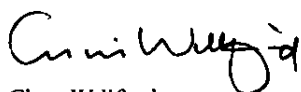
Political and charitable contributions

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 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 laws.

The Financial Statements are required by law to present fairly the financial position of the Company 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 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 Bradford & Bingley Funding No 2 Limited

We have audited the Financial Statements of Bradford & Bingley Funding No 2 Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity 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 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 Director's Report is consistent with the Financial Statements.

Independent Auditor's Report to the members of Bradford & Bingley Funding No. 2 Limited (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

	<i>Note</i>	2007 £	2006 £
Interest receivable and similar income		17,465,665	16,778,109
Interest expense and similar charges		(15,371,470)	(14,022,098)
Net interest income		2,094,195	2,756,011
Preference dividend income		15,014,312	13,965,235
Administrative expenses	3	-	-
Profit before taxation		17,108,507	16,721,246
Taxation	4	(1,052,219)	(908,152)
Profit for the financial year		16,056,288	15,813,094

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

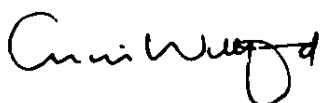
The notes on pages 13 to 19 form part of these Financial Statements

Balance Sheet as at 31 December

	Note	2007 £	2006 £
Assets			
Shares in subsidiary undertakings	7	400,000,000	400,000,000
Loans and advances to banks due after one year	5	-	337,891,270
Debt securities	6	-	41,249,841
Total non-current assets		<u>400,000,000</u>	<u>779,141,111</u>
Cash at bank		4	4
Loans and advances to banks due within one year	5	353,991,677	1,793,473
Amounts due from Group undertakings		12,775,557	8,818,221
Debt securities	6	56,264,152	-
Total current assets		<u>423,031,390</u>	<u>10,611,698</u>
Total assets		<u>823,031,390</u>	<u>789,752,809</u>
Liabilities			
Deposits by banks	8	-	340,213,146
Deferred tax liabilities	4	503,836	79,348
Total non-current liabilities		<u>503,836</u>	<u>340,292,494</u>
Deposits by banks	8	355,584,616	-
Amounts due to Group undertakings		3,288,977	1,664,098
Current tax payable		628,259	826,803
Total current liabilities		<u>359,501,852</u>	<u>2,490,901</u>
Total liabilities		<u>360,005,688</u>	<u>342,783,395</u>
Equity			
Capital and reserves attributable to equity holders			
Share capital	9	400,000,000	400,000,000
Retained earnings		63,025,702	46,969,414
Total attributable equity		<u>463,025,702</u>	<u>446,969,414</u>
Total equity and liabilities		<u>823,031,390</u>	<u>789,752,809</u>

The notes on pages 13 to 19 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 £
At 1 January 2007	400,000,000	46,969,414	446,969,414
Profit for the financial year	-	16,056,288	16,056,288
As at 31 December 2007	<u>400,000,000</u>	<u>63,025,702</u>	<u>463,025,702</u>
At 1 January 2006	400,000,000	31,156,320	431,156,320
Profit for the financial year	-	15,813,094	15,813,094
As at 31 December 2006	<u>400,000,000</u>	<u>46,969,414</u>	<u>446,969,414</u>

Cash Flow Statement for the year ended 31 December

	2007 £	2006 £
Cash flows from operating activities		
Profit for the financial year	16,056,288	15,813,094
<i>Adjustments for</i>		
Income tax expense	1,052,219	908,152
Cash flows from operating activities before changes in operating assets and liabilities	17,108,507	16,721,246
<i>Net decrease in operating assets</i>		
Loans and advances to banks	(13,834,614)	(13,575,181)
Debt securities	(15,014,311)	(13,965,235)
<i>Net increase/(decrease) in operating liabilities</i>		
Deposits by banks	15,371,470	14,022,098
Accruals and deferred income	-	(1,822)
Cash generated from operations	3,631,052	3,201,106
Taxation paid	(826,275)	(796,232)
Net cash from operating activities	2,804,777	2,404,874
<i>Cash flows from financing activities</i>		
Amounts due from Group undertakings	(3,957,336)	(3,070,777)
Amounts due to Group undertakings	1,624,879	798,054
Net increase in cash and cash equivalents	472,320	132,151
Cash and cash equivalents at beginning of year	1,793,477	1,661,326
Cash and cash equivalents at end of year	2,265,797	1,793,477
Represented by cash and assets with original maturity of 3 months or less within:		
Cash at bank	4	4
Amounts due from immediate parent company	2,265,793	1,793,473
	2,265,797	1,793,477

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

Bradford & Bingley Funding No 2 Limited ("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"). 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.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are set out in note 12.

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) Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred or accelerated arising from temporary differences between the treatment of certain items for taxation and for accounting purposes. Deferred taxation is provided for in full 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.

(d) Cash and cash equivalents

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

(e) Shares in subsidiary undertakings

In the accounts of the Company, shares in subsidiary undertakings are carried at cost less any impairment, as required by IAS 27 "Consolidated and Separate Financial Statements". Shares are reviewed at each Balance Sheet date for any indication of impairment, in accordance with IAS 36 "Impairment of Assets". If there is 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.

(f) Interest receivable and interest expense

The Effective Interest Rate ("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. The calculation includes all directly attributable incremental fees and costs, and all other premia and discounts as well as interest.

(g) Classification of 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) At amortised cost, or
- (vi) At fair value through profit or loss

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 liability. The amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectable.

Any profit or loss on sale of an instrument carried at amortised cost is recognised immediately in the Income Statement in interest income or expense depending on whether the instrument is an asset or a liability.

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where a 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. Any net movements in fair value that occur are included in the Income Statement.

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

2 Employees and Directors' emoluments

The Directors received no emoluments for the year or previous year for their services to the Company. Other than the Directors, the Company had no employees during the year or previous year.

3. Administrative expenses

Auditor's remuneration of £1,557 was borne by the Company's ultimate parent undertaking, Bradford & Bingley plc (2006 £1,500)

4 Taxation

	2007 £	2006 £
Current taxation expense		
UK corporation tax on the profit for the financial year	628,259	826,803
Adjustments in respect of previous years	(528)	2,001
Total current taxation	627,731	828,804
Deferred taxation		
Origination and reversal of temporary differences	539,824	79,348
Change in rate effective 1 April 2008 on deferred tax items	(115,336)	-
Total taxation expense per the Income Statement	1,052,219	908,152
Profit before taxation	17,108,507	16,721,246
UK corporation tax at 30%	5,132,552	5,016,374
Effects of		
Higher tax rates on overseas income	(5,121,387)	(4,110,223)
Change in rate effective 1 April 2008 on deferred tax items	(115,336)	-
Adjustments in respect of previous years	1,156,390	2,001
Total taxation expense per the Income Statement	1,052,219	908,152

Deferred taxation

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

	As at 1 January 2007 £	Recognised in income £	As at 31 December 2007 £	As at 1 January 2006 £	Recognised in income £	As at 31 December 2006 £
Higher tax on overseas dividend income	(79,348)	(424,488)	(503,836)	-	(79,348)	(79,348)
	(79,348)	(424,488)	(503,836)	-	(79,348)	(79,348)

5. Loans and advances to banks

	£	£
Amounts due from immediate parent undertaking after one year	-	298,300,000
Accrued income due after one year	-	39,591,270
Total due after one year	-	337,891,270
Amounts due from immediate parent undertaking within one year	351,725,884	-
Amounts due from immediate parent undertaking within 3 months	2,265,793	1,793,473
	353,991,677	339,684,743

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

6. Debt securities

	2007	2006
	£	£
Amounts due from subsidiary undertakings - non current	-	41,249,841
Amounts due from subsidiary undertakings - current	<u>56,264,152</u>	<u>-</u>
	<u>56,264,152</u>	<u>41,249,841</u>

These amounts comprise interest on preference shares issued by Tulip Investments BV at a rate of 4.400% (2006 4.267%)

7. Shares in subsidiary undertakings

	£
Cost and net book value at 31 December 2006 and 2007	<u>400,000,000</u>

The company owns 100% of the 'A' preference shares of Tulip investments BV, a company incorporated in the Netherlands

8. Deposits by banks

	2007	2006
	£	£
Deposits by banks - non-current	-	340,213,146
Deposits by banks - current	<u>355,584,616</u>	<u>-</u>
	<u>355,584,616</u>	<u>340,213,146</u>

The above deposit is owed to a single third party and is redeemable on demand. The balance includes interest which accrues at a fixed rate and is repayable on redemption of the principal.

9. Share capital

	2007 Shares	2006 Shares	2007 £	2006 £
Ordinary shares of £1 each				
Authorised				
As at 1 January and 31 December	<u>401,700,000</u>	<u>401,700,000</u>	<u>401,700,000</u>	<u>401,700,000</u>
Issued and fully paid				
As at 1 January and 31 December	<u>400,000,000</u>	<u>400,000,000</u>	<u>400,000,000</u>	<u>400,000,000</u>

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)**10. 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 year or the previous year.

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

	2007 £	2006 £
Income from treasury management activities		
Interest receivable on call loan to Bradford & Bingley Funding No 1 Limited	17,465,665	16,778,109
Preference dividend income	15,014,312	13,965,235
Non-current assets		
Shares in subsidiary undertakings	400,000,000	400,000,000
Amounts due from immediate parent undertaking	-	337,891,270
Debt securities	-	41,249,841
Current assets		
Amounts due from immediate parent undertaking	353,991,677	1,793,473
Amounts due from Group undertakings	12,775,557	8,818,221
Debt securities	56,264,152	-
Current liabilities		
Amounts due to Group undertakings	3,288,977	1,664,098

Auditor's remuneration of £1,557 was borne by the Company's ultimate parent undertaking, Bradford & Bingley plc (2006 £1,500)

11. Ultimate parent undertaking

The Company's immediate parent undertaking is Bradford & Bingley Funding No 1 Limited, 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, a public company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales, in whose consolidated financial statements this Company is included and whose accounts can be obtained from the Company Secretary, 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.

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

In preparation of the Financial Statements, estimates and assumptions may be made which affect the reported amounts of assets and liabilities.

Effective interest rate

Certain financial instruments are accounted for on an effective interest rate basis, under which the income or expense associated with the instrument is spread over the instrument's expected life.

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

13. Financial instruments

a) Categories of financial assets and financial liabilities, carrying value compared to fair value

The fair values of all classes of financial assets and financial liabilities of the Company are not materially different to their carrying amount as at 31 December 2006 and 31 December 2007

There were no financial assets or financial liabilities that are categorised as "held for trading" or "at fair value through profit and loss"

b) Nature and extent of risks arising from financial instruments

The company does not enter into transactions involving financial assets or financial liabilities which are listed or publicly traded

The main financial risks arising from the Company's activities are credit risk, liquidity risk and interest rate risk

(i) Credit risk

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

	2007	2006
	£	£
Cash at bank	4	4
Loans and advances to banks	353,991,677	339,684,743
Amounts due from Group undertakings	12,775,557	8,818,221
Debt securities	56,264,152	41,249,841
Total maximum exposure to credit risk	423,031,386	389,752,809

No impairment has been recognised in respect of any financial asset, and no financial assets were past due

(ii) Liquidity risk

The Company's policy is to maintain sufficient funds in a liquid form at all times to ensure that the Company can meet its liabilities as they fall due, by smoothing mismatches between maturing assets and liabilities

The contractual undiscounted cash flows associated with financial liabilities would be as follows if the note was redeemed on demand

	On demand	In not more than three months	In more than three months but not more than one year	In more than one year but not more than five years	In more than five years	Total
At 31 December 2007	£	£	£	£	£	£
Deposits by banks	355,584,616	-	-	-	-	355,584,616
Amounts due to Group undertakings	3,288,977	-	-	-	-	3,288,977
Total	358,873,593	-	-	-	-	358,873,593

	On demand	In not more than three months	In more than three months but not more than one year	In more than one year but not more than five years	In more than five years	Total
At 31 December 2006	£	£	£	£	£	£
Deposits by banks	340,213,146	-	-	-	-	340,213,146
Amounts due to Group undertakings	1,664,098	-	-	-	-	1,664,098
Total	341,877,244	-	-	-	-	341,877,244

Notes to the Financial Statements for the year ended 31 December 2007 (continued)**13. Financial instruments (continued)****b) Nature and extent of risks arising from financial instruments (continued)***(iii) Interest rate risk*

The Company has no material exposure to interest rate risk

(iv) Currency risk

At the year end the Company had no exposure to foreign exchange rate fluctuations as there are no assets or liabilities denominated in foreign currencies

(v) Other market risks

At the year end the Company had no other material exposure to market risks

(vi) Concentrations of risk

The Company operates primarily in the United Kingdom (UK) and adverse changes to the UK economy could impact areas of the Company's business. The Company holds £400,000,000 (2006 £400,000,000) shares in a single subsidiary undertaking. The Company is owed £366,767,233 (2006 £348,502,965) by its immediate parent undertaking.

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 11 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.