

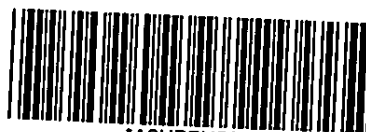
# **Bradford & Bingley Funding No 3 Limited**

Directors' Report and Financial Statements

Registered number: 05104047

31 December 2012

THURSDAY



\*A2HPPXOB\*

A47

26/09/2013

#128

COMPANIES HOUSE

**Directors' Report and Financial Statements**

<b>Contents</b>	<b>Page</b>
Company Information	3
Directors' Report	4 - 5
Independent Auditors' Report to the Members of Bradford & Bingley Funding No 3 Limited	6
Statement of Comprehensive Income	7
Balance Sheet	8
Statement of Changes in Equity	9
Cash Flow Statement	10
Notes to the Financial Statements	11 - 16

**Company Information**

**Directors**

Paul Martin Hopkinson  
Phillip Alexander McLelland

**Secretary**

John Gornall

**Registered Office**

Croft Road  
Crossflatts  
Bingley  
West Yorkshire  
BD16 2UA

**Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Benson House  
33 Wellington Street  
Leeds  
LS1 4JP

**Directors' Report for the financial year ended 31 December 2012****Registered number** 05104047

The Directors present their Report and Financial Statements for the financial year ended 31 December 2012

**Principal activities**

On 1 October 2010 UK Asset Resolution Limited ('UKAR') was established as the holding company for Northern Rock (Asset Management) plc ('NRAM') and Bradford & Bingley plc ('B&B'), bringing together the two brands under shared management and a common Board of Directors. Bradford & Bingley Funding No 3 Limited ('the Company') is a limited liability company incorporated and domiciled in the United Kingdom. The Company's principal activity during the year was that of supporting the funding requirements of the Company's parent undertaking B&B, a public limited liability company which was incorporated and domiciled in the United Kingdom. B&B and its subsidiary undertakings are collectively referred to as the 'B&B Group'.

**Business review**

The results for the financial year are shown in the Statement of Comprehensive Income on page 7. The profit for the financial year was £16,071,154 (2011: £16,851,459). The Directors will consider whether to wind up the Company during the next twelve months.

**Dividends**

No dividends were paid during the financial year or preceding financial year and the Directors do not recommend the payment of a final dividend (2011: £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 financial year and up to the date of signing the financial statements were as follows:

Paul Martin Hopkinson  
Phillip Alexander McLelland

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 audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 400 of the Companies Act 2006.

**Events after the reporting period**

Details of post balance sheet events can be found in note 14.

**Key performance indicators**

The Company has not made a loss (2011: £nil). Given the straightforward nature of the business, the Company's Directors are of the opinion

**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 key risks and uncertainties faced by the Company are managed within the framework established for the B&B Group.

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 11, and further discussion in the context of the B&B Group as a whole is provided in that Group's 2012 Annual Report & Accounts which do not form part of this Report and Financial Statements.

The Company's operations are also subject to periodic review by the B&B internal audit department.

**Political and charitable contributions**

During the year no political or charitable contributions were made (2011: £nil).

**Directors' Report for the financial year ended 31 December 2012 (continued)**

**Registered number 05104047**

**Third party indemnities**

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

**Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Directors' Report and the 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 prepared the Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to

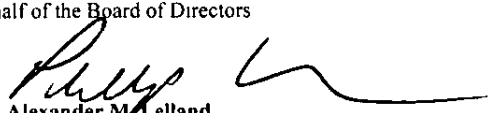
- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards ('IFRS') as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Financial Statements,
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

On behalf of the Board of Directors

  
**Phillip Alexander McLelland**  
Director

24 September 2013

**Independent Auditors' Report to the Members of Bradford & Bingley Funding No 3 Limited**

We have audited the Financial Statements of Bradford & Bingley Funding No 3 Limited for the financial year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

**Respective responsibilities of Directors and Auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of the audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

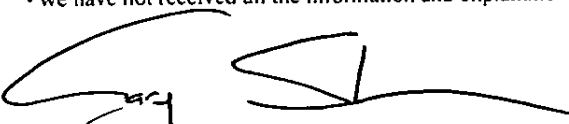
**Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns, or
- we have not received all the information and explanations we require for our audit



Gary Shaw (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

24 September 2013

## Statement of Comprehensive Income for the financial year ended 31 December

	<i>Note</i>	2012 £	2011 £
Interest income	9	<u>21,291,898</u>	<u>20,495,567</u>
<b>Net interest income</b>		<u>21,291,898</u>	<u>20,495,567</u>
<i>Income from investments in subsidiary undertakings</i>	6	109,641	2,322,837
<b>Net operating income</b>		<u>21,401,539</u>	<u>22,818,404</u>
Operating expenses	3	-	-
<b>Profit before taxation</b>		<u>21,401,539</u>	<u>22,818,404</u>
Taxation	4	(5,330,385)	(5,966,945)
<b>Profit for the financial year</b>		<u>16,071,154</u>	<u>16,851,459</u>
Other comprehensive income for the financial year		-	-
<b>Total comprehensive income for the financial year</b>		<u>16,071,154</u>	<u>16,851,459</u>

The Company's business and operations comprise one single activity in the United Kingdom, and the Company has only one operating segment for the purposes of IFRS 8 'Operating Segments'. The results above arise from continuing activities and are attributable to the equity owners.

The notes on pages 11 to 16 form an integral part of these Financial Statements.

## Balance Sheet at 31 December

Registered number: 05104047

	Note	2012 £	2011 £
<b>Assets</b>			
Deferred tax assets	5	<u>89,501</u>	<u>5,419,886</u>
<b>Total non-current assets</b>		<u>89,501</u>	<u>5,419,886</u>
Amounts due from Group undertakings	6	<u>571,727,634</u>	<u>550,326,095</u>
<b>Total current assets</b>		<u>571,727,634</u>	<u>550,326,095</u>
<b>Total assets</b>		<u>571,817,135</u>	<u>555,745,981</u>
<b>Total liabilities</b>		<u>-</u>	<u>-</u>
<b>Equity</b>			
Share capital	7	<u>1</u>	<u>1</u>
Capital contribution	8	<u>503,879,561</u>	<u>503,879,561</u>
Retained earnings		<u>67,937,573</u>	<u>51,866,419</u>
<b>Total equity</b>		<u>571,817,135</u>	<u>555,745,981</u>
<b>Total equity and liabilities</b>		<u>571,817,135</u>	<u>555,745,981</u>

The notes on pages 11 to 16 form an integral part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 24 September 2013 and signed on its behalf by



**Phillip Alexander McLelland**  
Director  
24 September 2013



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

	Share capital £	Capital contribution £	Retained earnings £	Total equity £
At 1 January 2012	1	503,879,561	51,866,419	555,745,981
Profit and total comprehensive income for the financial year	-		16,071,154	16,071,154
At 31 December 2012	<u>1</u>	<u>503,879,561</u>	<u>67,937,573</u>	<u>571,817,135</u>
At 1 January 2011	1	503,879,561	35,014,960	538,894,522
Profit and total comprehensive income for the financial year	-	-	16,851,459	16,851,459
At 31 December 2011	<u>1</u>	<u>503,879,561</u>	<u>51,866,419</u>	<u>555,745,981</u>

## Cash Flow Statement for the financial year ended 31 December

	2012 £	2011 £
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>21,401,539</b>	<b>22,818,404</b>
<b>Cash generated by operations</b>	<b>21,401,539</b>	<b>22,818,404</b>
<b>Net cash generated by operations</b>	<b>21,401,539</b>	<b>22,818,404</b>
<i>Cash flows from financing activities</i>		
Amounts due from Group undertakings	(21,401,539)	(22,818,404)
<b>Net cash used in financing activities</b>	<b>(21,401,539)</b>	<b>(22,818,404)</b>
<b>Net change 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 financial year ended 31 December 2012

## 1 Principal accounting policies

Bradford & Bingley Funding No 3 Limited ('the Company') is a limited liability company incorporated and domiciled in the United Kingdom

## (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')

For these 2012 Financial Statements, including the 2011 comparative financial information where applicable the Company has adopted for the first time the following statements

- The December 2010 amendments to IAS 12 'Income Taxes' relating to 'Deferred Tax Recovery of Underlying Assets' This amendment is mandatory for 2012 financial statements with 2011 comparative information Adoption of this statement had no impact on the Financial Statements of the Company

For these 2012 Financial Statements the Company has not adopted the following statements

- IFRS 9 'Financial Instruments', sections of which have been issued as part of the International Accounting Standard Board's ('IASB's') project to replace IAS 39 'Financial Instruments Recognition and Measurement' This statement is expected to be mandatory for 2015 financial statements, with 2014 comparative information, but has not yet been adopted for use in the EU The Company continues to monitor developments,
- IFRS 13 'Fair Value Measurement' This statement is mandatory for 2013 financial statements, with 2012 comparative information,
- The June 2011 amendments to IAS 1 'Presentation of Financial Statements' relating to 'Presentation of Items of Other Comprehensive Income' This statement is mandatory for 2013 financial statements with 2012 comparative information,
- The December 2011 amendments to IFRS 7 'Financial Instruments Disclosures' and IAS 32 'Financial Instruments Presentation' relating to the offsetting of financial assets and financial liabilities These amendments are mandatory for 2013 financial statements, with 2012 comparative information,
- The Annual Improvements to IFRSs 2009-2011 Cycle, issued in May 2012 These changes are mandatory for 2013 financial statements with 2012 comparative information

All other new standards, amendments to standards and interpretations are not considered relevant to and have no impact upon the Financial Statements of the Company

## (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 are prepared on the historical cost basis

The Directors consider that the accounting policies set out in this note are the most appropriate to the Company's circumstances, have been consistently applied to the Company in dealing with items which are considered material, and are supported by reasonable and prudent estimates and judgements

The validity of the going concern basis of accounting is dependent upon the funding position of the Company At the date of approval of these Financial Statements, the B&B Group is reliant upon the financing facilities and also upon the guarantee arrangements provided to B&B by HM Treasury Withdrawal of the financing facilities or the guarantee arrangements would have a significant impact on the B&B Group's and the Company's operations and their ability to continue as a going concern, in which case adjustments may have to be made to reduce the carrying value of assets to recoverable amounts and to provide for further liabilities that might arise At the signing date, HM Treasury has confirmed its intentions to continue to provide funding until at least 1 November 2014

The Financial Statements have been prepared in accordance with EU adopted IFRS, IFRIC interpretations issued by the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS A summary of accounting policies is set out below The preparation of the Financial Statements in conformity with these accounting policies and generally accepted accounting principles requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amounts, event or actions, actual results ultimately may differ from those estimates (see note 11)

## Notes to the Financial Statements for the financial year ended 31 December 2012 (continued)

**1 Principal accounting policies (continued)****(c) Interest income and expense**

For all financial instruments measured at amortised cost interest income and expense are recognised in the Statement of Comprehensive Income on an Effective Interest Rate ('EIR') basis

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

**(d) Classification of financial instruments**

In accordance with IAS 39 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

Measurement of financial instruments is either at amortised cost (categories (ii), (iii) and (vi) above) or at fair value (categories (i), (iv) and (v) above), depending on the category of financial instrument. The Company does not carry any financial instruments at 'fair value'.

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.

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 expected future cash flows taking 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 are included in the Statement of Comprehensive

**(e) Cash and cash equivalents**

Cash and cash equivalents comprise balances which are highly liquid and have an original maturity of three months or less.

**(f) Taxation****(i) Current tax**

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. Tax relating to items which are taken directly to reserves is also taken directly to reserves.

**(ii) Deferred tax**

Deferred tax is calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. The principal temporary differences arise from tax losses carried forward and changes in accounting basis on adoption of IFRS.

**(g) Income from investments in subsidiary undertakings**

Income from investments in subsidiary undertakings comprises dividends and liquidation distributions. Revenue is recognised once the right to receive the revenue becomes unconditional.

**(h) Investments in subsidiary undertakings**

Shares in subsidiary undertakings are carried at cost less any impairment. Shares are reviewed at each Balance Sheet date for any indication of impairment. 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 Statement of Comprehensive Income.

## Notes to the Financial Statements for the financial year ended 31 December 2012 (continued)

## 2. Employees and Directors' emoluments

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

## 3 Operating expenses

Auditor's remuneration of £1,463 was borne by the Company's parent undertaking B&B (2011: £1,485)

## 4 Taxation

	2012 £	2011 £
Deferred taxation		
Origination and reversal of temporary differences	5,216,144	5,429,473
Change in rate effective 1 April 2012 on deferred tax items	114,241	537,472
Total taxation charge per the Statement of Comprehensive Income	<u>5,330,385</u>	<u>5,966,945</u>
Profit before taxation	<u>21,401,539</u>	<u>22,818,404</u>
UK corporation tax at 24.5%/26.5%	5,243,377	6,046,877
Effects of		
Income not taxable	(26,862)	(615,392)
Change in rate effective 1 April 2012 on deferred tax items	114,241	537,472
Adjustments in respect of previous years	(371)	(2,012)
Total taxation charge per the Statement of Comprehensive Income	<u>5,330,385</u>	<u>5,966,945</u>

On 21 March 2012, the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012. This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012. In addition, the Finance Act 2012, which passed into law on 31 July 2012, included legislation to reduce the main tax rate of corporation tax from 24% to 23% with effect from 1 April 2013.

## 5. Deferred taxation

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

	At 1 January 2012 £	Recognised in income £	At 31 December 2012 £	At 1 January 2011 £	Recognised in income £	At 31 December 2011 £
Taxation value of losses carried forward	5,424,404	(5,331,786)	92,618	11,392,931	(5,968,527)	5,424,404
Change in accounting basis on adoption of IFRS	(4,518)	1,401	(3,117)	(6,100)	1,582	(4,518)
	<u>5,419,886</u>	<u>(5,330,385)</u>	<u>89,501</u>	<u>11,386,831</u>	<u>(5,966,945)</u>	<u>5,419,886</u>

£0.1m (2011: £5.4m) of deferred tax assets have been recognised in respect of tax losses carried forward, based upon detailed business plans, there will be sufficient taxable profits in future years to utilise the losses on which deferred tax has been recognised.

The Government has announced in November 2012 a further reduction of the rate of corporation tax, reducing it to 21% with effect from 1 April 2014. As this legislation was not substantively enacted by 31 December 2012, the impact of the anticipated rate change is not reflected in the tax provisions reported in these financial statements. The effect of future changes from 23% to 21% would have the maximum potential impact of reducing deferred tax assets by £8k.

## Notes to the Financial Statements for the financial year ended 31 December 2012 (continued)

## 6. Investments in subsidiary undertakings and balances with Group undertakings

The Company owned 100% of Bradford & Bingley Funding No 4 Limited, a limited liability company incorporated and domiciled in the United Kingdom. In April 2009 Bradford & Bingley Funding No 4 Limited was placed into a solvent liquidation. In June 2013 Bradford & Bingley Funding No 4 Limited repaid its share capital to the Company at par by assigning a debtor due from B&B. Bradford & Bingley Funding No 4 Limited also paid a dividend of £116,300,000 to the Company and a liquidation distribution of £8,980,316.

As a consequence of these transactions, the Company's net balances due from other undertakings in the B&B Group were replaced with a debtor due from B&B of £507,778,668. This balance is interest-bearing and repayable on demand.

A liquidation distribution of £109,641 was received during the year (2011: £2,322,837) from Bradford & Bingley Funding No 4 Limited.

## 7. Share capital

	2012 Shares	2011 Shares	2012 £	2011 £
Ordinary shares of £1 each				
<b>Authorised</b>				
At 1 January and 31 December	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<b>Issued and fully paid:</b>				
At 1 January and 31 December	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

These shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up.

## 8. Capital contribution

During 2008, the amounts due to subsidiary undertakings were assigned to the Company's parent undertaking B&B. B&B then waived its right to repayment of the principal and accrued interest as a capital contribution to the Company.

## 9. 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 previous financial year.

During the financial year and previous financial year the Company undertook the following transactions with companies within the B&B Group:

	2012 £	2011 £
<b>Interest income</b>	-	20,495,567
Liquidation distribution from subsidiary undertaking (see note 6)	-	2,322,837
<b>Current assets</b>		
Amounts due from Group undertakings	-	550,326,095

Auditor's remuneration of £1,463 was borne by the Company's parent undertaking B&B (2011: £1,485).

Interest income is all due from the Company's parent undertaking B&B.

**Notes to the Financial Statements for the financial year ended 31 December 2012 (continued)****10. 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.

*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.

*Amount due from Group undertakings*

In the opinion of the Directors, the amounts due from Group undertakings are not impaired.

*Deferred tax assets*

In the opinion of the Directors, it is probable that future taxable profits will be available against which the Company's temporary differences can be utilised.

**11. 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 from their carrying amounts as at 31 December 2011 and 31 December 2012.

There were no financial assets or financial liabilities that are categorised as 'held for trading' or 'at fair value through profit and loss' during the financial year or previous financial year.

**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 risk arising from the Company's activities is credit risk.

*(i) 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 Company has no material exposure to liquidity risk.

*(ii) Interest rate risk*

Whilst the Company earns interest income on the amounts due from Group undertakings, it incurs no related expenses, therefore it is considered that the Company has no material exposure to interest rate risk.

*(iii) Foreign currency risk*

At 31 December 2011 and 31 December 2012 the Company had no exposure to foreign exchange rate fluctuations as there were no assets or liabilities denominated in foreign currencies.

## Notes to the Financial Statements for the financial year ended 31 December 2012 (continued)

## 11 Financial instruments (continued)

## (iv) 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, as set out below.

	2012	2011
	£	£
Amounts due from Group undertakings	571,727,634	550,326,095
Total maximum exposure to credit risk	571,727,634	550,326,095

The amounts due from Group undertakings are all due from the Company's immediate parent undertaking, B&B HM Treasury has confirmed to the Directors of B&B its intention to continue to fund B&B so as to maintain B&B as a going concern and to enable B&B to meet its debts as and when they fall due for a period up to at least 1 November 2014.

## (v) Other market risks

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

## (vi) Concentrations of risk

Over 99% of the Company's assets comprise a debtor due from a single company, B&B.

## 12 Capital structure

The Company's capital is represented by the equity 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 equity in order that there is sufficient to meet the needs of the Company in its operations.

## 13 Ultimate Parent Undertaking

The Company's immediate parent undertaking is B&B, a public company incorporated and domiciled in the United Kingdom. B&B heads the smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of B&B 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 B&B to the Treasury Solicitor as nominee for HM Treasury on 29 September 2008, the Company considered Her Majesty's Government to be its ultimate controlling party from that date. On 1 October 2010 all shares in B&B were acquired via a share-for-share exchange by UKAR, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury. The Company considers Her Majesty's Government to remain its ultimate controlling party. UKAR heads the largest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of UKAR may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

## 14 Events after the reporting period

On 29 May 2013, the accounting reference date was changed to 31 March 2014 to align with that of the ultimate controlling party B&B.