Notes to the financial statements

1. Principal accounting policies

The accounting policies have been reviewed in accordance with the requirements of Financial Reporting Standard No.18 *'Accounting Policies'*. The Directors consider that the accounting policies set out below remain most appropriate to the Company's circumstances, have been consistently applied, and are supported by reasonable and prudent estimates and judgements.

(a) Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards and decisions of the Urgent Issues Task Force under the historical cost accounting convention. In addition the accounts have been prepared in accordance with the special provisions of the Companies Act 1985 applicable to banking companies and banking groups and in accordance with the Statements of Recommended Practice (SORP's) issued by the British Bankers' Association.

(b) Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings, and other companies which are considered by the Directors to be quasi-subsidiaries as defined in Financial Reporting Standard No. 5 *'Reporting the Substance of Transactions'*, all of which have co-terminous accounting periods. In addition the accounts comprise the appropriate share of profits and losses of its associates and joint ventures. Where subsidiaries have been acquired during a period, their results have been consolidated in the Financial Statements from the date of acquisition.

(c) Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and joint ventures represents the difference between the fair value of the consideration and the aggregate of the fair values of the separate net assets acquired. Goodwill is included within intangible fixed assets or investments in joint ventures and is amortised over a period appropriate to each acquisition, not exceeding 20 years.

Any unamortised goodwill on disposal of a subsidiary undertaking or joint venture is charged against the sale proceeds.

Impairment reviews are conducted at the end of the first full year after the year of acquisition in accordance with accounting standards or when events or changes in circumstances indicate that the carrying value of goodwill may not be fully recoverable or the amortisation period may have reduced. Any shortfalls are added to the amortisation of goodwill in the year of the impairment review.

(d) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Full provision is made for deferred taxation in accordance with Financial Reporting Standard No.19 *'Deferred Tax'*.

(e) Fixed assets and depreciation

The cost of additions and major alterations to land and buildings, equipment, fixtures and motor vehicles is capitalised.

Depreciation is provided so as to write off the cost, less the estimated residual value, of tangible fixed assets over their useful economic lives.

Depreciation is provided as follows:

- freehold and long leasehold buildings at 2% per annum on a straight-line basis;
- short leasehold properties are amortised over the remainder of the lease up to 50 years;
- fixtures and fittings at 20% per annum on a straight-line basis;
- motor vehicles at 25% per annum on a reducing balance basis;
- computer equipment at rates ranging from 20% to 33% per annum on a straight-line basis;
- software licences of an enduring nature at 33% per annum on a straight-line basis;
- internet development costs for transactional based websites at 50% per annum on a straight-line basis; and
- other equipment and major alterations to buildings at 10% per annum on a straight-line basis.

Any impairment in the value of freehold and long leasehold land and buildings is dealt with through the Profit and Loss Account as it arises.

(f) Leasing

Rentals under operating leases are charged to administrative expenses in the year in which the expenditure is incurred. Assets acquired under finance leases are capitalised at fair value at the start of the lease, with the corresponding obligations being included in other liabilities. The finance lease costs charged to the Profit and Loss Account are based on a constant periodic rate as applied to the outstanding liabilities.

(g) Debt securities

Debt securities intended for use on a continuing basis in the Group's activities are classified as investment securities and are stated at cost as adjusted for the amortisation of any premiums or discounts arising on acquisition, which are amortised over the period to redemption on a level yield basis. Any such amortisation is included in interest receivable. Provision is made for any impairment in value. Debt securities are accounted for on a trade date basis. Each investment in a structured investment vehicle ('SIV') is individually reviewed to ensure the accounting treatment is appropriate.

Where the SIV is considered to have minimal management discretion, the Group recognises its share of the SIV's underlying assets and liabilities. In other cases they are treated as debt securities. Interest on these vehicles includes a margin above the coupon rate to reflect profits earned by the underlying investment.

(h) Pension and post retirement benefits

The Group charges pension and other post retirement costs against profits in accordance with Statement of Standard Accounting Practice 24 *'Accounting for Pension Costs'* using an actuarial method and assumptions designed to provide for the anticipated costs over the remaining service lives of the employees in the scheme. This method ensures that the regular costs represent a relatively equal proportion of the current and expected future pensionable payroll in the light of current actuarial assumptions. Any SSAP 24 prepayment or liability is included in prepayments and accrued income or other liabilities as appropriate, with all charges to the Profit and Loss Account, including interest, in administrative expenses.

Variations from regular cost are spread over the remaining service lives of current employees in the scheme.

(i) Provisions for bad and doubtful debts

Provisions for losses on residential loans and advances to customers are made throughout the year and at the year-end. The basis for determining the level of provisions is to provide for all reasonably foreseeable losses that exist in the portfolio at the date of calculation.

Specific provisions for residential lending are created for cases with arrears to debt ratios of 2.5% or greater. The potential shortfall is calculated from the outstanding mortgage debt plus costs of re-possession less the estimated property value with a discount valuation factor for forced sale. The potential shortfall for each case is adjusted to reflect the probability of loss. This adjustment reflects historical performance except for specialist lending

Notes to the financial statements

where, because this area of lending is not yet mature, probabilities of loss are predicted by reference to the credit scoring system.

The specific provision for properties in possession is based on the contracted/agreed sale price or sale valuation with adjustment for expenses of sale and income from insurance policies. Specific provisions for the commercial portfolio are calculated on all cases three or more months in arrears. A probability of loss, dependent on the severity of the arrears, is applied on a case-by-case basis.

General provisions are raised to cover losses which are judged to be present in loans and advances at the balance sheet date, but which have not been specifically identified as such. The general provision also takes into account the economic climate in the market and the level of security held. Loans and advances are written off where there is no realistic prospect of recovery.

Interest charged to all residential and commercial loans which are in arrears or in possession, and where the interest is expected to be irrecoverable, is suspended from other interest receivable and similar income.

(j) Debt and capital instrument issue costs

These are amortised over the period to the instruments' maturity at a constant rate and included in interest payable. The unamortised amounts are deducted from the relevant liability. In the event of early repayment the unamortised issue cost is charged to interest payable.

(k) Interests in joint ventures

Joint ventures are undertakings in which the Group holds an interest on a long-term basis and are jointly controlled by the Group and one or more other venturers under a contractual agreement.

The Group's share of profits less losses from joint ventures is included in the Profit and Loss Account using the gross equity method. The holding value of joint ventures in the Consolidated Balance Sheet is calculated by reference to the Group's share of the gross assets, including Group loans to the joint venture and any related unamortised goodwill, less its share of the gross liabilities, as shown by the most recent accounts available.

(l) Foreign currencies

Assets and liabilities denominated in foreign currency that have been hedged by means of matching foreign currency contracts, are translated at the exchange rate inherent in those contracts. Where assets and liabilities denominated in foreign currency have not been hedged, they are translated at the rate of exchange at the balance sheet date.
Any gains or losses are included in interest receivable or payable depending on the underlying instrument being an asset or liability.

m) Mortgage indemnity insurance

Charges to borrowers in respect of high loan-to-value advances are paid to a wholly owned captive insurance company. In the Group accounts these charges are treated as deferred income and deducted from loans and advances to customers. The income deferred is released to interest receivable on a level yield basis over the life of the mortgage.

(n) Incentives to customers

Cashbacks, interest discounts and other incentives to customers are amortised against interest receivable and similar income or interest payable over the early redemption clawback period of these products commencing from the date of completion. Unamortised incentives are held within prepayments and accrued income and other liabilities.

(o) Acquisition of mortgage portfolios

Premiums paid on the acquisition of mortgage portfolios are held within other assets and amortised over the estimated economic life of the underlying asset. Where such mortgage portfolios are acquired as part of a company purchase, the resulting charge is included within administrative expenses. Where such mortgage portfolios are acquired as a result of a specific asset purchase, the resulting charge is deducted from interest receivable.

(p) Loans and advances to customers subject to non-recourse funding

Loans and advances to customers subject to non-recourse funding are included in the Consolidated Balance Sheet using the linked presentation method. Such balances are stated at book value. The profit on ordinary activities before taxation is included within other operating income in the Consolidated Profit and Loss Account. The same provisioning policies as stated in note (i) above apply to these loans.

(q) Off-balance sheet financial instruments

Off-balance sheet financial instruments are entered into by the Group for hedging purposes to reduce the risks arising on transactions entered into in the normal course of business. The effectiveness of this hedging is reviewed on a regular basis.

The income or expense arising from off-balance sheet financial instruments entered into for hedging purposes is recognised in the accounts in accordance with the accounting treatment of the underlying transaction or transactions being hedged.

Where off-balance sheet instruments are terminated prior to the underlying hedged transaction terminating, any profits or losses realised upon early termination are deferred and matched against the income or expenditure arising from the underlying hedged transaction over the remaining period of the hedging instrument. If the underlying hedged transaction is extinguished or terminated, the remaining unamortised gains or losses on the hedge are recognised in the Profit and Loss Account immediately.

The Group does not undertake transactions for trading or speculative purposes and consequently all off-balance sheet financial instruments are classified as hedging contracts.

(r) Income recognition

- Interest income is recognised in the Profit and Loss Account as it accrues except where interest is suspended as set out in accounting policy note (i) above.
- Commercial lending fees charged in lieu of interest are recognised in the Profit and Loss Account as interest receivable on a level yield basis over the discount period of the interest foregone.
- Residential lending fees and commissions receivable are recognised in the Profit and Loss Account on receipt within Fees and Commissions Receivable.
- Commission receivable from Regulated Financial Services products is recognised as income within Fees and Commissions Receivable when the policy goes 'On Risk', net of any provision for repayment in the event of termination by the customer.
- Procurement Fees from sale of mortgages are recognised when the house sale completes and the mortgage becomes active.
- Client Fees are recognised on the exchange of contract for the relevant property.
- Estate Agency fees on sales of new and second hand homes are recognised on exchange of contracts.

(s) Fees payable

Fees payable to brokers and agents in respect of the sale of Bradford & Bingley mortgages are fully expensed as incurred.

	Group 2003	Group 2002
	£m	£m
2. On-going administrative expenses		
Staff costs (see note 4)	**210.8**	200.1
Property rentals	**14.8**	13.7
Hire of equipment	**1.9**	1.5
Remuneration of auditors and associates:		
Audit services:		
Statutory audit fees	**0.6**	0.5
Other audit fees	**0.1**	0.5
	0.7	1.0
Further assurance services	**0.2**	0.1
Tax services	**0.2**	0.4
Other services	**0.2**	0.4
Other expenses	**211.0**	199.3
	439.8	416.5

Statutory audit fees paid by the Company were £0.5m (2002: £0.4m).

	2003	2002
3. Exceptional administrative expenses		
Re-organisation costs	**–**	17.7
Disengagement from joint venture	**–**	14.9
	–	32.6

The exceptional costs in 2002 in respect of the joint venture related principally to software write-off and redundancy costs relating to disengagement from the ALLTEL Mortgage Solutions joint venture. The exceptional re-organisation costs in 2002 comprised principally staff redundancy costs resulting from a rationalisation of administrative support functions, including further outsourcing of the IT function to IBM.

	Full time 2003	Full time 2002	Part time 2003	Part time 2002	Full time equivalent 2003	Full time equivalent 2002
4. Staff costs and number						
The average number of persons employed by the Group during the year	**5,834**	5,711	**1,914**	2,039	**6,745**	6,682

The full time equivalent is based on the average hours worked by employees in the year.

	Group 2003	Group 2002
	£m	£m
The aggregate costs of these persons were as follows:		
Wages and salaries	**178.7**	173.8
Social security costs	**19.3**	15.8
Other pension costs	**12.8**	10.5
	210.8	200.1

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5. Directors' remuneration

Full details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 32 to 40, including details of the long-term incentive schemes and pension entitlements. Details of Directors' share interests in Bradford & Bingley plc are set out in the Directors' Report on page 25.

	Group	
	2003	2002
	£m	£m
6. Tax on profit on ordinary activities		
Analysis of the charge in the year		
Current tax:		
UK corporation tax on profits for the year	74.2	61.8
Adjustments in respect of previous periods	(12.3)	4.3
	61.9	66.1
Foreign tax	1.7	2.2
	63.6	68.3
Exceptional credit - UK corporation tax	(22.9)	–
Total current tax	40.7	68.3
Deferred tax:		
Origination and reversal of timing differences (see note 19)	8.6	(5.1)
Total deferred tax	8.6	(5.1)
Tax on profit on ordinary activities	49.3	63.2

There are no adjustments in respect of previous periods included within foreign tax.

During the year, the Inland Revenue agreed that certain costs of conversion to listed company status were a deductible expense for tax purposes. As a result of this agreement, an exceptional tax credit of £22.9m has been recognised in these accounts.

The 2003 current tax charge of £40.7m (2002: £68.3m) equates to an effective rate of 15.4% (2002: 28.4%). This is reconciled to the standard UK rate as follows:

	2003	2002
	%	%
Standard corporation tax rate	30.0	30.0
Expenses not deductible for tax	3.1	0.5
Exceptional tax credit	(8.7)	–
Lower rate on overseas earnings	(1.0)	(1.1)
Adjustments in respect of previous periods	(4.7)	(1.0)
Tax on minority interest (non-equity)	(1.1)	(0.7)
Effect of timing differences	(2.2)	(0.4)
Other	–	1.1
	15.4	28.4

7. Profit on ordinary activities after tax

The profit after tax of the Company attributable to the shareholders is £151.4m (2002: £162.3m). As permitted by section 230 of the Companies Act 1985, the Company's Profit and Loss Account has not been presented in these Financial Statements.

	Company 2003	Company 2002	Company 2003	Company 2002
	Pence per share	Pence per share	£m	£m
8. Dividends				
Interim dividend paid	**5.5**	4.9	**33.6**	32.5
Final dividend proposed	**11.0**	9.9	**68.4**	63.9
	16.5	14.8	**102.0**	96.4

	Group and Company 2003	Group and Company 2002
	Shares (m)	Shares (m)
9. Earnings per share		
Weighted average number of ordinary shares in issue	**631.2**	663.6
Dilutive effect of ordinary shares issuable under Company share schemes	**2.8**	2.6
Diluted ordinary shares	**634.0**	666.2

Shares acquired by employee share trusts which are held on the Consolidated Balance Sheet have been excluded from the calculation of earnings per share, as under Financial Reporting Standard No. 14 they are treated as if they are cancelled until such time as they vest unconditionally to the employee.

The earnings, net of corporation tax, used in calculating the basic, diluted and excluding exceptionals earnings per share figures were as follows:

	2003	2002
	£m	£m
Basic and diluted earnings: profit attributable to the shareholders of Bradford & Bingley plc	**204.0**	171.6
Add: re-organisation costs	**–**	12.4
Add: joint venture disengagement costs	**–**	10.4
Less: exceptional tax credit	**(22.9)**	–
Earnings excluding exceptionals	**181.1**	194.4

The earnings per share figure excluding exceptionals is reported in order to provide shareholders with a performance measure excluding the effect of exceptionals.

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	Group and Company 2003 Book value	Group and Company 2002 Book value	Group and Company 2003 Market value	Group and Company 2002 Market value
	£m	£m	£m	£m
10. Treasury bills and other eligible bills				
Investment securities:				
Treasury bills and similar securities	**132.6**	189.1	**132.5**	189.1
Other eligible bills	**–**	7.9	**–**	8.0
	132.6	197.0	**132.5**	197.1

The movement on treasury bills and other eligible bills held for investment purposes was as follows:

	Group and Company Book value
	£m
At 1 January 2003	**197.0**
Additions	**562.4**
Disposals and maturities	**(630.9)**
Amortisation of discounts	**4.1**
At 31 December 2003	**132.6**

Included in the above balances are unamortised discounts on investment securities of £0.4m for Group and Company (2002: £2.3m).

	Group 2003	Group 2002	Company 2003	Company 2002
	£m	£m	£m	£m
11. Loans and advances to banks				
Repayable on demand	**230.8**	126.9	**124.5**	95.2
Other loans and advances repayable:				
In not more than three months	**2,542.5**	1,229.8	**2,432.2**	1,059.0
	2,773.3	1,356.7	**2,556.7**	1,154.2
Included above are the following amounts which relate to items in the course of collection from other banks	**43.8**	30.8	**43.4**	30.8

	Group 2003	Group 2002	Company 2003	Company 2002
	£m	£m	£m	£m
12. Loans and advances to customers				
Advances secured on residential properties	**22,523.7**	18,332.9	**8,921.7**	10,447.4
Other secured advances	**3,330.9**	2,173.4	**3,338.6**	2,173.4
Amounts due from subsidiary undertakings	**–**	–	**12,005.1**	7,050.2
Subordinated loan to quasi-subsidiary	**–**	–	**23.1**	23.1
Amounts due from joint venture	**–**	–	**–**	1.5
Non-recourse funding	**(1,036.7)**	(1,180.1)	**–**	–
	24,817.9	19,326.2	**24,288.5**	19,695.6
Repayable:				
On demand and at short notice	**40.4**	29.4	**12,028.7**	7,081.1
In not more than three months	**172.3**	73.4	**145.8**	57.8
In more than three months but not more than one year	**383.4**	377.6	**298.3**	324.2
In more than one year but not more than five years	**2,785.2**	1,963.4	**2,258.0**	1,658.5
In more than five years	**22,551.5**	18,145.5	**9,567.2**	10,581.7
	25,932.8	20,589.3	**24,298.0**	19,703.3
Less:				
Non-recourse funding	**(1,036.7)**	(1,180.1)	**–**	–
General and specific bad debt provisions (see note 13)	**(49.8)**	(40.3)	**(9.5)**	(7.7)
General and specific bad debt provisions for loans and advances to customers subject to non-recourse funding	**(10.9)**	(15.4)	**–**	–
Deferred mortgage indemnity income	**(17.5)**	(27.3)	**–**	–
	24,817.9	19,326.2	**24,288.5**	19,695.6

It should be noted that this may not reflect actual experience of repayments since many mortgage loans are repaid early.

Within loans and advances to customers are included £2,094.8m (2002: £1,204.0m) of advances which act as security for funding.

Included within the above are the following non-performing loans and advances to customers:

	Group 2003	Group 2002	Company 2003	Company 2002
	£m	£m	£m	£m
Loans and advances before provisions	**42.5**	34.6	**7.7**	10.1
Loans and advances after provisions	**40.6**	32.6	**7.1**	9.2

Notes to the financial statements

13. Provisions for bad and doubtful debts

Provisions against loans and advances to customers have been made as follows:

Group

	Advances secured on residential property £m	Other secured advances £m	Total £m
At 1 January 2003:			
General provision	31.8	2.2	34.0
Specific provision	5.2	1.1	6.3
	37.0	3.3	40.3
Amounts written back during the year	2.8	0.1	2.9
Profit and Loss Account:			
Increase in provisions	9.1	1.2	10.3
Adjustments to specific provision for bad and doubtful debts resulting from recoveries during the year	(3.6)	(0.1)	(3.7)
	5.5	1.1	6.6
At 31 December 2003:			
General provision	40.9	3.4	44.3
Specific provision	4.4	1.1	5.5
	45.3	4.5	49.8

Company

	Advances secured on residential property £m	Other secured advances £m	Total £m
At 1 January 2003:			
General provision	3.1	2.2	5.3
Specific provision	1.3	1.1	2.4
	4.4	3.3	7.7
Amounts written back during the year	2.3	0.1	2.4
Profit and Loss Account:			
Increase in provisions	1.9	1.2	3.1
Adjustments to specific provision for bad and doubtful debts resulting from recoveries during the year	(3.6)	(0.1)	(3.7)
	(1.7)	1.1	(0.6)
At 31 December 2003:			
General provision	3.1	3.4	6.5
Specific provision	1.9	1.1	3.0
	5.0	4.5	9.5

	Group 2003 Book value	Group 2002 Book value	Company 2003 Book value	Company 2002 Book value
	£m	£m	£m	£m
14. Debt securities				
Investment securities issued by public bodies:				
Government securities	267.1	607.5	216.5	552.7
Other public sector securities	164.2	164.8	164.1	164.8
Investment securities issued by other issuers:				
Bank and building society certificates of deposit	774.5	723.6	542.3	454.0
Other debt securities	2,679.1	2,437.3	2,381.2	2,482.6
	3,884.9	3,933.2	3,304.1	3,654.1
Debt securities have remaining maturities as follows:				
Due within one year	1,301.6	1,305.5	1,030.1	1,034.8
Due one year and over	2,583.3	2,627.7	2,274.0	2,619.3
	3,884.9	3,933.2	3,304.1	3,654.1
Analysis of debt securities by listing status:				
Listed	2,948.1	2,983.1	2,597.7	2,937.3
Unlisted	936.8	950.1	706.4	716.8
	3,884.9	3,933.2	3,304.1	3,654.1
Unamortised premiums and discounts	13.9	11.8	13.9	11.8
Profits on sale of debt securities	3.2	6.6	3.2	6.6

	Market value	Market value	Market value	Market value
	£m	£m	£m	£m
Investment securities issued by public bodies:				
Government securities	266.0	611.8	216.2	555.5
Other public sector securities	192.2	196.1	192.2	196.1
Investment securities issued by other issuers:				
Bank and building society certificates of deposit	773.7	741.8	542.1	464.1
Other debt securities	2,714.0	2,411.7	2,412.8	2,456.0
	3,945.9	3,961.4	3,363.3	3,671.7
Market value of listed securities	2,987.2	2,979.5	2,629.0	2,923.3
Market value of unlisted securities	958.7	981.9	734.3	748.4

Notes to the financial statements

	Group £m	Company £m
14. Debt securities – continued		
Movements during the year of transferable debt securities held as financial fixed assets are analysed as follows:		
Net book value		
At 1 January 2003	3,933.2	3,654.1
Additions	6,762.4	6,364.1
Disposals and maturities	(6,815.6)	(6,719.8)
Premiums net of discounts charged in the year	(4.6)	(3.8)
Other movements	9.5	9.5
At 31 December 2003	3,884.9	3,304.1

All debt securities are intended for use on a continuing basis in the operations of the Group and it is for this reason that they are classified as financial fixed assets.

	Group £m
15. Investment in joint venture	
At 1 January 2003:	
Share of gross assets	4.2
Share of gross liabilities	(3.6)
	0.6
Loan to joint venture	1.5
Investment in joint venture	2.1
Transferred to shares in Group undertakings during the year	(2.1)
Net book value at 31 December 2003	–
Net book value at 31 December 2002	2.1

On 3 January 2003 the Group acquired an additional 74.9% investment in ALLTEL Mortgage Solutions Ltd joint venture company from Alltel. At this point the company became a wholly owned subsidiary. The cost of the additional investment was £2.1m and this represented the book value of net assets acquired. No fair value adjustments were required. The net assets acquired are included in the acquisitions table in note 39.

	Company £m
16. Investments	
(a) Shares in Group undertakings	
At 1 January 2003	**601.0**
Additions	**23.7**
At 31 December 2003	**624.7**

Details of businesses acquired in the year are given in note 39.

The principal trading subsidiary undertakings of Bradford & Bingley plc at 31 December 2003 held directly or indirectly are listed below:

	Country of registration	Major activity	Class of shares held	Interest
Direct				
Bradford & Bingley Insurance (Isle of Man) Ltd	Isle of Man	Captive insurance company	Ordinary	100%
Bradford & Bingley International Ltd	Isle of Man	Offshore deposit-taking	Ordinary	100%
Bradford & Bingley Investments	England	Holding company	Ordinary	100%
Bradford & Bingley Treasury Services (Ireland)	England	Treasury activities	Ordinary	100%
Charcol Aitchison & Colegrave Ltd	Scotland	Financial services	Ordinary	100%
Charcol Holden Meehan Ltd	England	Financial services	Ordinary	100%
Securemove Property Services Ltd	England	Property related services	Ordinary	100%
Indirect				
Alltel Mortgage Solutions Ltd	England	Mortgage administration	Ordinary	100%
Bradford & Bingley Homeloans Management Ltd	England	Mortgage administration	Ordinary	100%
Charcol Ltd	England	Financial services	Ordinary	100%
John Charcol Holdings Ltd	England	Holding company	Ordinary	100%
Mortgage Express	England	Residential mortgage lending	Ordinary	100%

The Company's shareholding in Bradford & Bingley Insurance (Isle of Man) Ltd is in partly paid ordinary shares. The Company has a future liability of £7.75m to pay fully for all shares issued to the balance sheet date.

The above principal subsidiary undertakings all operate in the country of registration with the exception of Bradford & Bingley Treasury Services (Ireland) which operates in the Republic of Ireland. Bradford & Bingley Investments, Bradford & Bingley Treasury Services (Ireland) and Mortgage Express are all unlimited companies.

The results of all subsidiary undertakings have been included in these Financial Statements.

Notes to the financial statements

16. Investments – continued

(b) Quasi-subsidiaries

(i) Advances secured on residential property subject to non-recourse funding

A quasi-subsidiary of the Group, Aire Valley Finance plc, has a portfolio of residential mortgage assets. The portfolio was funded by the issue of £989.0m of bonds, serviceable only from the cash flows generated by the mortgage portfolio, together with £36.0m of subordinated finance from the Group. At 31 December 2003, bonds including accrued interest and the aforementioned subordinated finance to the value of £41.7m were held by the Group. Aire Valley Finance plc has the option to redeem all classes of bonds at their principal amount outstanding on the interest payment date falling in November 2004 and on any interest payment date falling thereafter or when the value of bonds falls below £100m.

A second quasi-subsidiary of the Group, Aire Valley Trustees (No. 2) Ltd, also has a portfolio of residential mortgage assets. The beneficial interest in this portfolio was subsequently transferred to a third quasi-subsidiary of the Group, Aire Valley Finance (No. 2) plc. Aire Valley Finance (No. 2) plc was funded by the issue of £1.0 billion of bonds, serviceable only from the cash flows generated by the mortgage portfolio, together with £22.9m of subordinated finance from the Group. At 31 December 2003 the subordinated finance from the Group, including accrued interest, was £23.1m. The company has the option to redeem all classes of bonds at their principal amount outstanding on the interest payment date falling in September 2008 and on any interest payment date falling thereafter or when the value of bonds falls below £100m.

Aire Valley Trustees (No. 2) Ltd has entered into an interest rate swap with Bradford & Bingley plc as the swap counterparty to manage the interest rate basis risk payable on the loan notes issued by Aire Valley Finance (No. 2) plc. Mortgage income received by Aire Valley Trustees (No. 2) Ltd from the securitised mortgage portfolio is passed to Bradford & Bingley plc which then pays a floating rate of interest to Aire Valley Trustees (No. 2) Ltd to enable payment of interest on the loan notes. There is one fixed rate swap, with a capped notional volume of £600m and a maximum term of ten years.

The Group is not obliged to support any losses in respect of these mortgages, other than to the extent of its subordinated funding, nor does it intend to do so. This is clearly stated in the agreements with the bond holders.

The controlling interests of Aire Valley Finance plc, Aire Valley Finance (No. 2) plc and Aire Valley Trustees (No. 2) Ltd are held by a discretionary trustee. The Group receives an administration fee for servicing the mortgage portfolios of both Aire Valley Finance plc and Aire Valley Finance (No.2) plc, together with any residual income arising after the claims of the bond holders are met.

The detailed Profit and Loss Accounts and Balance Sheet linked presentation of these quasi-subsidiaries included in the Group consolidation are:

	Aire Valley Finance plc		Aire Valley Trustees (No.2) Ltd and Aire Valley Finance (No.2) plc	
Profit and Loss Account	**2003**	2002	**2003**	2002
	£m	£m	**£m**	£m
Interest receivable and similar income	**18.4**	25.5	**45.5**	54.0
Interest payable	**(12.9)**	(18.1)	**(39.6)**	(46.3)
Net interest income	**5.5**	7.4	**5.9**	7.7
Administrative expenses and deferred purchase consideration payable	**(0.1)**	(0.6)	**(9.4)**	(1.8)
Provisions for bad and doubtful debts	**0.8**	0.5	**3.7**	(5.0)
Profit on ordinary activities before taxation	**6.2**	7.3	**0.2**	0.9
Taxation on profit on ordinary activities	**(2.1)**	(1.8)	**(0.2)**	–
Dividends	**(4.1)**	(5.5)	**–**	–
	–	–	**–**	0.9
Balance Sheet linked presentation				
Loans and advances to customers subject to non-recourse funding (net of provisions)	**268.8**	344.4	**794.3**	859.6
Less: non-recourse funding	**(241.4)**	(318.2)	**(795.3)**	(861.9)
	27.4	26.2	**(1.0)**	(2.3)

16. Investments – continued
(b) Quasi-subsidiaries - continued
(ii) Secured funding

On 3 August 2003 a quasi-subsidiary of the Group, Legaless Ltd, was assigned equitable title to a £1.0 billion portfolio of residential mortgage assets from Mortgage Express, a subsidiary of the Group. Mortgage Express and the Group continue to be exposed to the risk that the principal amount and interest receivable on the mortgage loans are not collectable. The mortgage loans are not ring-fenced and so a linked presentation is not appropriate and the loans continue to be shown within loans and advances to customers in the Group accounts. Legaless Ltd funded the purchase of mortgages through a participation agreement with a third party bank and the funding is shown within deposits by banks in the Group accounts.

	Legaless Ltd	
Profit and Loss Account	2003	2002
	£m	£m
Interest receivable and similar income	20.5	–
Interest payable	(13.6)	–
Net interest income	6.9	–
Administrative expenses and deferred purchase consideration payable	(6.9)	–
Profit on ordinary activities before taxation	–	–
Balance Sheet		
Loans and advances to customers	1,031.7	–
Amounts due to funding vehicle	(968.6)	–
Amounts due to Mortgage Express	(6.6)	–
	56.5	–

	Group
	£m
17. Intangible fixed assets – goodwill	
Cost	
At 1 January 2003	144.9
Acquisitions in the year	15.8
At 31 December 2003	160.7
Amortisation	
At 1 January 2003	34.9
Charge for the year	9.7
At 31 December 2003	44.6
Net book value at 31 December 2003	116.1
Net book value at 31 December 2002	110.0

The goodwill arising on the purchase of BBG Estate Agencies Ltd and the Douglas Duff partnership is being amortised over a period of 10 years. The goodwill arising on the purchase of John Charcol Holdings Ltd, Holden Meehan Ltd and Aitchison & Colegrave Group Ltd is being amortised over a period of 20 years. The amortisation periods are based upon an assessment of their estimated economic lives made by the Directors.

Note 39 provides further details of the acquisitions during the year.

Notes to the financial statements

18. Tangible fixed assets

	Land and buildings £m	Equipment, fixtures and vehicles £m	Total £m
Group			
Cost			
At 1 January 2003	126.9	218.1	345.0
Additions	0.1	27.3	27.4
Other additions arising on acquisitions in the year	1.8	1.7	3.5
Disposals	(9.8)	(33.0)	(42.8)
At 31 December 2003	119.0	214.1	333.1
Depreciation			
At 1 January 2003	38.7	162.4	201.1
Charge for the year	1.6	17.1	18.7
Disposals	(4.0)	(21.6)	(25.6)
At 31 December 2003	36.3	157.9	194.2
Net book value at 31 December 2003	82.7	56.2	138.9
Net book value at 31 December 2002	88.2	55.7	143.9

Sale proceeds from asset disposals were £15.1m (2002: £17.6m) resulting in a loss on sale of £0.4m (2002: £1.1m) which has been charged in the Profit and Loss Account to depreciation and amortisation. In addition, sale proceeds from the sale and leaseback of land and buildings assets were £9.8m resulting in a profit of £8.1m which has been included in the Profit and Loss Account in other operating income.

Included within Group tangible fixed assets are leased vehicles in the Company Car Ownership Scheme. At 31 December 2003 the net book value of these assets was £20.3m (2002: £20.2m).

	Land and buildings £m	Equipment, fixtures and vehicles £m	Total £m
Company			
Cost			
At 1 January 2003	121.4	190.5	311.9
Additions	0.1	15.5	15.6
Transfers to subsidiary companies	–	(0.8)	(0.8)
Disposals	(9.8)	(22.6)	(32.4)
At 31 December 2003	111.7	182.6	294.3
Depreciation			
At 1 January 2003	38.4	155.6	194.0
Charge for the year	1.5	15.8	17.3
Transfers to subsidiary companies	–	(0.4)	(0.4)
Disposals	(4.0)	(21.4)	(25.4)
At 31 December 2003	35.9	149.6	185.5
Net book value at 31 December 2003	75.8	33.0	108.8
Net book value at 31 December 2002	83.0	34.9	117.9

	Group 2003	Group 2002	Company 2003	Company 2002
	£m	£m	£m	£m
18. Tangible fixed assets – continued				
The net book value of land and buildings comprises:				
Freehold	**71.8**	77.1	**66.5**	72.4
Long leasehold (50 or more years unexpired)	**7.2**	6.4	**5.7**	5.9
Short leasehold (less than 50 years unexpired)	**3.7**	4.7	**3.6**	4.7
	82.7	88.2	**75.8**	83.0
Net book value of property occupied for own activities	**80.5**	82.7	**73.6**	77.5

The Group's policy is to value approximately one third of land and buildings each year, although no adjustment is made to the asset values as shown in the Balance Sheets. On the basis of the latest valuation in each case, the total market value at 31 December 2003 was £98.3m compared with a net book value of £82.7m.

The value attributed has been arrived at by the Directors on an open market valuation, with the exception of the Group's principal administration centres at Crossflatts and Bingley. These properties are regarded as specialised properties which have a long term benefit to the Group and are valued on the basis of depreciated replacement cost. The valuations have been carried out by members of the Royal Institution of Chartered Surveyors.

	Group 2003	Group 2002	Company 2003	Company 2002
	£m	£m	£m	£m
19. Other assets				
Premiums on mortgage books	**25.1**	15.7	**–**	–
Deferred taxation	**13.5**	22.1	**0.1**	10.1
Mortgage insurance guarantee premiums	**–**	–	**4.8**	8.1
Debt securities in issue awaiting settlement	**8.2**	31.0	**8.2**	31.0
Other	**28.4**	17.3	**13.3**	17.3
	75.2	86.1	**26.4**	66.5
Included within the above is deferred taxation:				
At 1 January	**22.1**	17.0	**10.1**	11.4
Movement during the year	**(5.8)**	1.6	**(4.7)**	(1.5)
Prior years	**(2.8)**	3.5	**(5.3)**	0.2
At 31 December	**13.5**	22.1	**0.1**	10.1
The amounts recognised for deferred taxation represent the future recovery of the liability to corporation taxation in respect of:				
Shortfall of capital allowances to depreciation	**6.3**	4.2	**4.9**	4.5
General provision for bad and doubtful debts	**16.1**	16.3	**2.0**	1.6
Other timing differences	**(8.9)**	1.6	**(6.8)**	4.0
	13.5	22.1	**0.1**	10.1

Notes to the financial statements

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
20. Prepayments and accrued income				
Due from subsidiary undertakings	–	–	21.5	15.9
Derivative financial instruments	43.6	48.1	43.2	48.1
Pension prepayment	45.2	39.0	45.2	39.0
Mortgage incentives	21.7	9.5	2.3	4.4
Other	64.8	68.7	43.1	52.4
	175.3	165.3	155.3	159.8
The movement in mortgage incentives is as follows:				
At 1 January	2.4	(15.8)	(0.9)	(12.5)
Cost of incentives	30.5	6.7	(1.5)	1.6
Amortisation of incentives	(13.5)	11.5	3.1	10.0
At 31 December	19.4	2.4	0.7	(0.9)

The above table includes mortgage incentives both from prepayments and accrued income and other liabilities.

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
21. Deposits by banks				
Repayable:				
On demand	74.9	101.9	58.8	49.9
In not more than three months	276.4	387.6	258.2	319.1
In more than three months but not more than one year	1,057.7	–	74.3	–
In more than one year but not more than five years	299.8	–	–	–
	1,708.8	489.5	391.3	369.0
Included above are the following amounts which relate to items in the course of transmission to other banks	59.6	23.7	58.0	21.2

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
22. Customer accounts				
Amounts due to subsidiary undertakings	–	–	2,408.1	2,497.1
Other	17,170.5	16,614.9	15,337.9	14,678.2
	17,170.5	16,614.9	17,746.0	17,175.3
Repayable:				
On demand	11,207.3	11,659.4	13,064.0	13,215.7
In not more than three months	3,347.8	2,714.0	2,349.6	1,718.1
In more than three months but not more than one year	1,157.2	720.9	972.0	720.9
In more than one year but not more than five years	1,458.2	1,520.6	1,360.4	1,520.6
	17,170.5	16,614.9	17,746.0	17,175.3

	Group and Company 2003 £m	Group and Company 2002 £m
23. Debt securities in issue		
Bonds and medium term notes	**7,574.8**	4,264.9
Other debt securities in issue	**2,747.7**	1,503.1
	10,322.5	5,768.0
Bonds and medium term notes repayable:		
In not more than one year	**2,340.5**	553.6
In more than one year but not more than two years	**1,551.0**	1,037.8
In more than two years but not more than five years	**3,605.7**	2,413.9
In more than five years	**77.6**	259.6
	7,574.8	4,264.9
Other debt securities in issue repayable:		
In not more than three months	**2,450.1**	1,444.3
In more than three months but not more than one year	**230.6**	56.7
In more than one year but not more than two years	**7.0**	2.1
In more than two years but not more than five years	**60.0**	–
	2,747.7	1,503.1
Unamortised discounts	**14.7**	13.0

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
24. Other liabilities				
Income tax	**26.9**	31.8	**26.9**	31.8
Corporation tax	**92.3**	113.1	**62.2**	92.4
Dividends payable	**68.4**	63.9	**68.4**	63.9
Mortgage incentives	**2.3**	7.1	**1.6**	5.3
Other creditors	**65.4**	51.8	**57.6**	50.6
Pension liabilities	**10.2**	4.9	**10.2**	4.9
	265.5	272.6	**226.9**	248.9

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
25. Accruals and deferred income				
Accrued interest on subordinated liabilities	**19.0**	17.9	**24.7**	23.7
Derivative financial instruments	**53.2**	29.2	**53.9**	29.2
Other	**75.8**	84.0	**57.8**	60.1
	148.0	131.1	**136.4**	113.0

Notes to the financial statements

	Empty leasehold premises	Exceptional costs	Pension review	Total
	£m	£m	£m	£m
26. Provisions for liabilities and charges				
Group				
At 1 January 2003	2.6	15.8	4.2	22.6
Charged in the year	0.3	–	–	0.3
Utilised in the year	(0.6)	(15.8)	(3.2)	(19.6)
At 31 December 2003	2.3	–	1.0	3.3
Company				
At 1 January 2003	2.6	15.8	4.0	22.4
Charged in the year	0.3	–	–	0.3
Utilised in the year	(0.6)	(15.8)	(3.1)	(19.5)
At 31 December 2003	2.3	–	0.9	3.2

The empty leasehold premises provision relates to properties which are no longer used for trading. The pension review provision has been established to cover compensation payable in connection with phases one and two of the pension review and also a review of free-standing additional voluntary contributions.

	Group 2003	Group 2002	Company 2003	Company 2002
	£m	£m	£m	£m
27. Subordinated liabilities				
Dated:				
Sterling subordinated notes due 2010	125.0	125.0	125.0	125.0
Step-up sterling subordinated notes due 2011	125.0	125.0	125.0	125.0
Sterling perpetual subordinated notes due 2013	250.0	–	250.0	–
Sterling perpetual subordinated notes due 2019	200.0	–	200.0	–
Sterling fixed rate step-up subordinated notes due 2022	200.0	200.0	200.0	200.0
Sterling subordinated notes due 2023	125.0	125.0	125.0	125.0
Sterling perpetual subordinated notes due 2032	–	–	150.0	150.0
	1,025.0	575.0	1,175.0	725.0
Less: unamortised issue costs	(8.1)	(2.7)	(9.5)	(4.2)
	1,016.9	572.3	1,165.5	720.8
Undated:				
13% Perpetual Subordinated Bonds (sterling)	55.0	55.0	55.0	55.0
11.625% Perpetual Subordinated Bonds (sterling)	50.0	50.0	50.0	50.0
	1,121.9	677.3	1,270.5	825.8

The sterling subordinated notes due 2010 pay interest at a rate of 7.625% per annum until their maturity. The step-up sterling subordinated notes due 2011 pay interest at a rate of 8.375% per annum until 26 December 2006 when the Company may either redeem them (with the prior consent of the Financial Services Authority) or pay a rate of interest fixed at 1.85% above the relevant five year gilt. The sterling fixed rate step-up subordinated notes due 2022 pay interest at a rate of 5.75% per annum until 12 December 2017 when the Company may either redeem them, as above, or pay a rate of interest 2% above the relevant five year gilt. The sterling subordinated notes due 2023 pay interest at a rate of 6.625% until their maturity. The sterling perpetual subordinated notes due 2032 pay interest at a rate of 6.462% until 2 June 2032 when the Company may redeem them, as above, or pay a rate of interest 2.3% above the relevant five year gilt. The rights of repayment of the holders of subordinated debt, including Perpetual Subordinated Bonds, are subordinated to the claims of all depositors and creditors as regards the principal and interest thereon. Interest on both issues of Perpetual Subordinated Bonds, which have no maturity date, is payable half-yearly in arrears. None of the subordinated liabilities can be repaid at the borrower's option, except as stated above. Interest incurred in the year with respect to subordinated liabilities was £63.0m (2002: £45.3m).

On 29 April 2003 the Company issued £250m of perpetual subordinated notes (£246.0m net of expenses). These securities pay interest at a rate of 5.625% and are redeemable by the issuer at its option on 20 December 2013 and on each fifth anniversary thereafter. On 10 December 2003 the Company issued £200m of perpetual subordinated notes (£198.2m net of expenses). These securities pay interest at a rate of 6% and are redeemable by the issuer at its option on 10 December 2019 and on each fifth anniversary thereafter.

	Group and Company 2003 Shares (m)	2003 £m
28. Called up share capital		
Ordinary shares of 25p each:		
Authorised at 1 January and 31 December 2003	**882.0**	**220.5**
Allotted, called up and fully paid:		
At 1 January	**653.8**	**163.5**
Repurchase of own shares	**(19.7)**	**(5.0)**
At 31 December	**634.1**	**158.5**

The issued share capital has reduced as a result of a share buy back programme, approved by shareholders at the Annual General Meetings in 2001, 2002 and 2003. During 2003, 19.7 million shares were purchased for cancellation at a cost of £61.6m (excluding commissions and Stamp Duty). In total 47.9 million shares have been purchased for cancellation at a total cost of £150m under the programme which commenced in February 2002.

The Group and Company hold on their Balance Sheets own shares of £33.0m (2002: £20.8m) which represent shares held by share trusts for the purposes of executive and employee share awards/savings schemes. Own shares are carried at cost less any provision for permanent diminution in value. The movement in own shares in 2003 represents £14.3m of additional share purchases, less £1.0m of options exercised by individuals and a charge of £1.1m in respect of the discount on shares acquired for the Sharesave Scheme.

Bradford & Bingley Profit Sharing Scheme

In March 2001 and March 2002, employees entitled to the Group bonus could elect to receive shares under the rules of the Bradford & Bingley Profit Sharing Scheme. This scheme operates a trust fund, known as the Bradford & Bingley Share Ownership Trust, which is under the control of independent trustees, Computershare Trustees Limited. By leaving the shares in the Bradford & Bingley Share Ownership Trust for three years, employees will not have to pay income tax and national insurance contributions on receipt of those shares. At 31 December 2003 the trustees of the Bradford & Bingley Share Ownership Trust held 1,357,090 shares (2002: 2,422,919) on behalf of 2,604 employees (2002: 4,607).

Bradford & Bingley Employees' Share Trust

On 3 October 2000 the Company established an offshore employee share trust, the Bradford & Bingley Employees' Share Trust, for the purpose of receiving monies and acquiring shares to be used in conjunction with any employee share schemes established by the Company. At 31 December 2003 the trustees of this trust, Mourant & Co. Trustees Limited, held 6,346,112 (2002: 4,265,769) shares to satisfy share awards and options which have been made or are to be made in accordance with the rules of the employee share schemes established by the Company. The market value of shares held at 31 December 2003 was £19,355,641 (2002: £12,370,730). During 2003 the Company provided £6.4m (2002: £7.4m) for share purchases. The trust has waived in full its rights to receive dividends on the shares held. This trust currently holds shares relating to the Long Term Incentive Plan, Executive Share Option Scheme, Performance Share Plan and the Employees' Restricted Share Bonus Plan which are detailed below.

Long Term Incentive Plan

Under the rules of the 1998 Long Term Incentive Plan it was possible for the participants to elect to take share options rather than the cash entitlements. Awards were made under this plan on 12 December 2000 and 50 participants elected to take options over 353,744 shares exercisable at the same time as the cash payments (40% immediately and two further equal tranches on the first and second anniversaries). The options over shares remain exercisable during the first five years following the award date. At the year end 126,795 (2002: 149,218) shares remained under option.

Executive Share Option Scheme

Grants of approved and unapproved share options were made under the rules of the Bradford & Bingley 2000 Share Option Scheme as detailed below. The shares are exercisable subject to the achievement of a performance target linked to an increase in the Company's earnings per share. The options over shares are exercisable over the period of three to ten years after the date of the grant.

	Option price (pence)	Options outstanding 2003 Shares	2002 Shares
Date of grant			
6 March 2001	291.83	**1,075,845**	1,202,751
6 September 2001	311.67	**106,758**	106,758
6 March 2002	315.58	**981,502**	1,114,588
28 August 2002	329.75	**83,682**	83,682
25 February 2003	281.67	**1,278,854**	–
14 August 2003	307.42	**59,608**	–

At 31 December 2003 the market price of Bradford & Bingley shares was 305p.

Notes to the financial statements

28. Called up share capital - continued

Performance Share Plan

Shares were awarded under the rules of the Bradford & Bingley 2000 Performance Share Plan as detailed below. The shares will be released to the individuals after the end of the performance period subject to the achievement of performance criterion which measures the performance of the Company against a peer group of companies.

		Awards outstanding 2003	2002
	Original award price (pence)	Shares	Shares
Date of award			
6 March 2001	291.83	**558,720**	609,170
6 September 2001	311.67	**19,251**	19,251
2 October 2001	287.00	**62,717**	62,717
6 March 2002	315.58	**445,897**	495,329
3 May 2002	332.00	**576,203**	649,696
28 August 2002	329.75	**25,806**	25,806
25 February 2003	281.67	**1,354,891**	–
14 August 2003	307.42	**52,368**	–

Sharesave Scheme

The Company operates an Inland Revenue approved, all employee Save As You Earn share option scheme, the Bradford & Bingley 2000 Sharesave Scheme. Grants of share options under this scheme were made in 2001, 2002 and 2003 (details are shown below). The option prices represent a 20% discount to the market price on the date of the grant. There were 3,944 three-year and 1,241 five-year savings contracts in place at the end of 2003. A further invitation to participate in the scheme will be issued in February 2004.

		Options outstanding 2003	2002
	Option price (pence)	Shares	Shares
Date of grant			
2 January 2001 (3 year period)	200.00	**2,828,182**	3,337,246
2 January 2001 (5 year period)	200.00	**2,277,642**	2,673,828
22 March 2002 (3 year period)	252.67	**891,322**	1,169,610
22 March 2002 (5 year period)	252.67	**438,980**	589,630
20 March 2003 (3 year period)	223.74	**1,241,670**	–
20 March 2003 (5 year period)	223.74	**712,706**	–

On 8 December 2000 the Bradford & Bingley Qualifying Employee Share Ownership Trust was established to acquire shares for employees, including Directors, to satisfy options exercised under the Sharesave Scheme. During 2003 the Trust acquired 2,626,199 shares. The Company provided £7.9m (2002: £4.1m) for this purpose. At 31 December 2003 the Trust held a total of 6,324,628 shares (2002: 3,855,268) to satisfy options which are expected to be exercised under the Sharesave Scheme. In respect of dividends arising from the shares held, the Trust has waived its rights to all but 0.0001 pence per share.

At 31 December 2003 the market price of Bradford & Bingley shares was 305p.

Employees' Restricted Share Bonus Plan

In April 2002 the Employees' Restricted Share Bonus Plan was established to allocate shares to employees following the achievement of specified performance measures. The shares will be released to the individuals in tranches annually in the three years following the allocation subject to them remaining employed by the Company on the anniversary dates.

		Allocations outstanding 2003	2002
	Original allocation price (pence)	Shares	Shares
Date of allocation			
14 May 2002	332.00	**40,667**	61,000
25 February 2003	281.67	**241,861**	–
28 March 2003	300.92	**12,356**	–

	Group 2003	Group 2002
	£m	£m
29. Minority interests (non-equity)		
Perpetual preferred securities	150.0	150.0
Less: unamortised issue costs	(1.4)	(1.5)
At 31 December	148.6	148.5

On 29 May 2002, £150m, 6.462% guaranteed, non-voting, non-cumulative, perpetual preferred securities, Series A were issued through Bradford & Bingley Capital Funding L.P. (£148.5m net of expenses), a Jersey based Limited Partnership. These securities are not subject to any mandatory redemption provisions and qualify as Tier 1 regulatory capital; they are redeemable by the issuer at its option on 2 June 2032 and on each fifth anniversary thereafter. They have a fixed coupon and, if not redeemed in 2032, the coupon will be reset at a rate equal to the sum of the relevant five year benchmark gilt rate plus a margin of 2.30% per annum.

The Group is not obliged and will not make any payments to the holders of the preferred securities other than those to which the holders of these securities are entitled under the terms of the preferred securities.

	Group 2003	Company 2003
	£m	£m
30. Reserves		
Profit and Loss Account		
At 1 January	1,087.4	1,015.1
Retained profit for the year	102.0	49.4
Repurchase of own shares	(62.0)	(62.0)
At 31 December	1,127.4	1,002.5
Share premium account		
At 1 January and at 31 December	3.9	3.9
Capital redemption reserve		
At 1 January	7.0	7.0
Repurchase of own shares	5.0	5.0
At 31 December	12.0	12.0

31. Derivatives and other financial instruments

(a) Financial instruments and risk management

The Group's core business is to provide its customers with financial products appropriate to their needs, from mortgages and savings accounts to long-term investment products and insurance products. The Group uses wholesale financial instruments to invest in liquid assets and to raise funds from wholesale money markets in support of its retail savings and mortgage operations. These instruments also allow it to manage the risks arising from these business activities.

The Group has a well established formal structure for managing risks which includes formal risk policies, risk limits, reporting structures, mandates and control procedures. The Group's approach to risk management and control is set out within the Financial Review on pages 20 to 21. The Board delegates the management of all aspects of market and liquidity risk to the Asset and Liability Management Committee (ALCO).

Financial instruments used by the Group for risk management purposes include off-balance sheet or derivative instruments. Such instruments are used only to limit the extent to which the Group will be affected by changes in interest rates and exchange rates. As part of its responsibilities, ALCO approves the use of specified off-balance sheet instruments within approved limits and business activities.

Notes to the financial statements

31. Derivatives and other financial instruments – continued

(a) Financial instruments and risk management – continued

The Group does not undertake transactions for trading or speculative purposes and consequently all off-balance sheet financial instruments are classified as hedging contracts. The principal off-balance sheet instruments used by the Group in managing its balance sheet risk exposures are interest rate swaps, interest rate options, cross currency interest rate swaps and foreign exchange contracts. These are used to protect the Group from exposures arising principally from fixed and capped rate mortgage lending, fixed rate savings products, deposit funding, foreign currency exposure and investment activities. The duration of off-balance sheet contracts is generally short to medium-term and their maturity profile reflects the nature of exposures arising from underlying business activities.

At the year end the Group had no net material exposure to foreign exchange fluctuations or changes in foreign currency interest rates.

(b) Interest rate risk

The following tables analyse the repricing periods of Group assets and liabilities at 31 December 2003 and 31 December 2002 respectively:

	Group interest rate sensitivity gap 2003						
	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks	–	–	–	–	–	43.7	43.7
Treasury bills and other eligible bills	132.6	–	–	–	–	–	132.6
Loans and advances to banks	2,773.3	–	–	–	–	–	2,773.3
Loans and advances to customers	17,801.5	695.8	1,304.6	3,992.0	1,024.0	–	24,817.9
Debt securities	2,860.3	174.8	133.7	197.9	518.2	–	3,884.9
Other assets	–	–	–	–	–	538.5	538.5
Total assets	23,567.7	870.6	1,438.3	4,189.9	1,542.2	582.2	32,190.9
Liabilities							
Deposits by banks	1,326.5	82.5	–	299.8	–	–	1,708.8
Customer accounts	14,743.6	556.1	481.2	1,389.6	–	–	17,170.5
Debt securities in issue	9,279.8	256.6	57.4	719.2	9.5	–	10,322.5
Other liabilities	–	–	–	–	–	416.8	416.8
Subordinated liabilities	–	–	–	125.0	996.9	–	1,121.9
Shareholders' funds	–	–	–	–	–	1,301.8	1,301.8
Minority interest	–	–	–	–	148.6	–	148.6
Total liabilities	25,349.9	895.2	538.6	2,533.6	1,155.0	1,718.6	32,190.9
Off-balance sheet items	2,994.5	(664.5)	(576.6)	(1,464.4)	(289.0)	–	–
Interest rate sensitivity gap	1,212.3	(689.1)	323.1	191.9	98.2	(1,136.4)	–
Cumulative gap	1,212.3	523.2	846.3	1,038.2	1,136.4	–	–

A positive interest rate sensitivity gap exists when more assets than liabilities re-price during a given period. Although net interest income tends to benefit from a positive gap when interest rates are rising (and a negative gap when rates are falling), the actual effect will depend upon a number of factors, including the extent to which repayments are made earlier or later than the next reset or maturity date.

31. Derivatives and other financial instruments – continued

(b) Interest rate risk – continued

	Group interest rate sensitivity gap 2002						
	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks	–	–	–	–	–	45.0	45.0
Treasury bills and other eligible bills	178.6	18.4	–	–	–	–	197.0
Loans and advances to banks	1,356.7	–	–	–	–	–	1,356.7
Loans and advances to customers	14,009.3	332.7	902.8	2,967.2	1,114.2	–	19,326.2
Debt securities	2,494.1	272.3	276.6	304.0	586.2	–	3,933.2
Other assets	–	–	–	–	–	528.2	528.2
Total assets	18,038.7	623.4	1,179.4	3,271.2	1,700.4	573.2	25,386.3
Liabilities							
Deposits by banks	402.1	46.2	34.2	7.0	–	–	489.5
Customer accounts	14,451.8	261.2	487.5	1,414.4	–	–	16,614.9
Debt securities in issue	5,344.2	40.8	17.7	113.0	252.3	–	5,768.0
Other liabilities	–	–	–	–	–	426.3	426.3
Subordinated liabilities	–	–	–	125.0	552.3	–	677.3
Shareholders' funds	–	–	–	–	–	1,261.8	1,261.8
Minority interest	–	–	–	–	148.5	–	148.5
Total liabilities	20,198.1	348.2	539.4	1,659.4	953.1	1,688.1	25,386.3
Off-balance sheet items	1,485.0	(429.2)	(147.9)	(335.4)	(572.5)	–	–
Interest rate sensitivity gap	(674.4)	(154.0)	492.1	1,276.4	174.8	(1,114.9)	–
Cumulative gap	(674.4)	(828.4)	(336.3)	940.1	1,114.9	–	–

Notes to the financial statements

31. Derivatives and other financial instruments – continued

(c) Fair values of financial assets and financial liabilities

Set out below is a comparison of carrying values and fair values of certain of the Group's financial assets and financial liabilities at 31 December 2003. The Group does not undertake transactions for trading or speculative purposes. The table excludes certain financial assets and financial liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes items such as mortgages, customer accounts and deposits with banks.

		2003		2002	
		Book value	Fair value	Book value	Fair value
		£m	£m	£m	£m
Financial assets					
Treasury bills and other eligible bills		**132.6**	**132.5**	197.0	197.1
Debt securities		**3,884.9**	**3,945.9**	3,933.2	3,961.4
Financial liabilities					
Debt securities in issue		**10,322.5**	**10,322.6**	5,768.0	5,743.9
Subordinated liabilities		**1,140.9**	**1,236.0**	722.6	821.9
Non-recourse funding		**1,036.7**	**1,042.3**	1,180.1	1,177.6
Minority interest (non-equity)		**154.3**	**163.9**	154.3	158.2
Non-trading derivatives					
Exchange rate contracts	- positive fair values	**(2.7)**	**109.6**	(0.5)	35.4
	- negative fair values	**(10.3)**	**(198.1)**	(0.9)	(15.7)
Interest rate contracts:					
Caps, collars and floors	- positive fair values	**–**	**0.1**	2.2	2.9
	- negative fair values	**–**	**(2.6)**	(0.2)	(3.8)
Swaps	- positive fair values	**34.0**	**130.1**	48.1	130.1
	- negative fair values	**(30.6)**	**(199.4)**	(29.8)	(209.3)
Futures	- positive fair values	**–**	**–**	–	0.6
	- negative fair values	**–**	**(1.0)**	–	–

The above figures include accrued interest.

Where a market exists, market values have been used to determine the fair value of debt securities issued and held. Where no market exists, discounted cash flow techniques have been used to determine the fair value using market interest rates for the relevant assets. The fair values of off-balance sheet financial instruments have been determined using market interest rates in discounted cash flow techniques. Fair values of interest rate caps and collars have been calculated using option-pricing models.

31. Derivatives and other financial instruments – continued

(c) Fair values of financial assets and financial liabilities – continued

The fair values of off-balance sheet financial instruments used as hedges are recognised when the exposure that is being hedged is recognised. The table below shows how these fair values have been, or are expected to be, recognised in the Profit and Loss Account.

	Amounts not recognised in the Balance Sheet		
	Gains	Losses	Net
	£m	£m	£m
2003			
Unrecognised gains and losses on hedges at 1 January 2003	**119.2**	**(197.9)**	**(78.7)**
Less: gains and losses arising in previous years that were recognised in 2003	**(6.0)**	**14.9**	**8.9**
Gains and losses arising before 1 January 2003 that were not recognised in 2003	**113.2**	**(183.0)**	**(69.8)**
Gains and losses arising in 2003 that were not recognised in 2003	**102.2**	**(184.1)**	**(81.9)**
Unrecognised gains and losses on hedges at 31 December 2003	**215.4**	**(367.1)**	**(151.7)**
Of which:			
Gains and losses expected to be recognised in 2004	**16.6**	**(60.8)**	**(44.2)**
Gains and losses expected to be recognised in 2005 or later	**198.8**	**(306.3)**	**(107.5)**
2002			
Unrecognised gains and losses on hedges at 1 January 2002	158.1	(114.9)	43.2
Less: gains and losses arising in previous years that were recognised in 2002	(5.2)	77.5	72.3
Gains and losses arising before 1 January 2002 that were not recognised in 2002	152.9	(37.4)	115.5
Gains and losses arising in 2002 that were not recognised in 2002	(33.7)	(160.5)	(194.2)
Unrecognised gains and losses on hedges at 31 December 2002	119.2	(197.9)	(78.7)
Of which:			
Gains and losses expected to be recognised in 2003	35.7	(41.6)	(5.9)
Gains and losses expected to be recognised in 2004 or later	83.5	(156.3)	(72.8)

Deferred balances relating to settled derivatives and other financial transaction provisions, used as hedges, will be released to the Profit and Loss Account in the same periods as the income and expenditure flows from the underlying hedged transactions. The above table shows the gains and losses on off-balance sheet derivative instruments used for hedging by the Group. The gains and losses therefore do not represent absolute gains and losses expected by the Group as they will be substantially offset by corresponding losses or gains from on-balance sheet instruments.

Notes to the financial statements

31. Derivatives and other financial instruments – continued

(d) Interest and exchange rate instruments

Set out below is the residual maturity analysis of the underlying principal amounts of 'over the counter' ('OTC') and non-margined exchange traded derivatives at 31 December. These are all held for asset and liability management purposes:

	One year or less	Over one year but no more than five years	Over five years	Total
	£m	£m	£m	£m
2003				
Caps, collars and floors	**601.8**	**183.7**	**–**	**785.5**
Interest rate swaps	**2,276.7**	**7,503.4**	**2,670.0**	**12,450.1**
Interest rate derivatives	**2,878.5**	**7,687.1**	**2,670.0**	**13,235.6**
Foreign exchange derivatives	**474.3**	**3,561.5**	**60.2**	**4,096.0**
At 31 December 2003	**3,352.8**	**11,248.6**	**2,730.2**	**17,331.6**
2002				
Caps, collars and floors	1,293.3	843.0	–	2,136.3
Interest rate swaps	1,382.5	4,520.2	2,342.9	8,245.6
Interest rate derivatives	2,675.8	5,363.2	2,342.9	10,381.9
Foreign exchange derivatives	230.5	1,266.2	–	1,496.7
At 31 December 2002	2,906.3	6,629.4	2,342.9	11,878.6

Set out below is the residual maturity analysis of the net replacement cost of OTC and non-margined exchange traded derivatives at 31 December. These are all held for asset and liability management purposes:

	One year or less	Over one year but no more than five years	Over five years	Total
2003				
Caps, collars and floors	**0.1**	**0.1**	**–**	**0.2**
Interest rate swaps	**23.2**	**55.6**	**49.8**	**128.6**
Interest rate derivatives	**23.3**	**55.7**	**49.8**	**128.8**
Foreign exchange derivatives	**5.0**	**98.8**	**–**	**103.8**
At 31 December 2003	**28.3**	**154.5**	**49.8**	**232.6**
2002				
Caps, collars and floors	2.1	0.8	–	2.9
Interest rate swaps	6.6	70.6	52.9	130.1
Interest rate derivatives	8.7	71.4	52.9	133.0
Foreign exchange derivatives	4.3	31.0	–	35.3
At 31 December 2002	13.0	102.4	52.9	168.3

Substantially all of the Group's derivatives activity is contracted with financial institutions. Replacement cost is calculated by marking to market the value of contracts and aggregating those with a positive value.

	Group 2003	Group 2002	Company 2003	Company 2002
	£m	£m	£m	£m
32. Memorandum items				
Commitments:				
Irrevocable undrawn loan facilities	**1,139.9**	972.3	**732.6**	589.3
Partly paid share capital in subsidiary	**–**	–	**7.8**	7.8
	1,139.9	972.3	**740.4**	597.1

33. Retirement benefits

(a) Pension schemes

The Company operates a funded defined benefit staff pension scheme, the Bradford & Bingley Staff Pension Scheme ('the principal scheme'), administered by trustees, which is a closed scheme. The fund is independent from those of the Company. The normal pension age of employees in the scheme is 60 years. Pension costs in the principal scheme are assessed in accordance with the advice of a qualified actuary using the projected unit method. The most recent actuarial valuation of the scheme was at 31 October 2003. The aggregate actuarial value of the scheme's assets was sufficient to cover 110% of the aggregate benefits that had accrued to members, after allowing for expected future increases in earnings.

The aggregate market value of the scheme's assets held at 31 October 2003 was £352.6 million.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. The rate of return on investments has been assumed to exceed the rate of salary increases by 2.75% per annum and to exceed the rate of present and future pensions increase by 3.25% per annum. This latter assumption is different from that used by the Company and Trustees in determining the contribution rate to the scheme where the investment return is assumed to exceed the rate of pension increase by 2.25% per annum.

The pension charge takes account of the surpluses disclosed, which are amortised over a period of 11.5 years, being the estimated average remaining service life of pension scheme members.

The Group also operates two further defined benefit schemes which are not material.

The Group operates a defined contribution scheme, the Bradford & Bingley Group Pension Plan. The fund is independent from those of the Company.

The total pension cost for the Group was £13.0m (2002: £10.7m) and included £0.2m (2002: £0.2m) in respect of pensions to former Directors which was charged to other administrative expenses. There were no liabilities or prepayments associated with the defined contribution scheme at the year end (2002: £Nil).

(b) Other post-retirement benefits

The Company provides concessionary rate mortgages and health care benefits to some of its pensioners. The cost of health care benefits is provided for in accordance with the stated accounting policy. The cost of concessionary rate mortgages is not significant and is recognised in the Profit and Loss Account as it is incurred.

(c) Financial Reporting Standard No.17 'Retirement Benefits'

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 *'Accounting for Pension Costs'*, the following transitional disclosures are required by FRS 17 *'Retirement Benefits'*:
The major assumptions used in this valuation were:

	2003	2002	2001
	%	%	%
Rate of increase in salaries	**4.8**	4.4	4.5
Rate of increase in pensions in payment	**2.8**	2.4	2.5
Discount rate	**5.4**	5.5	5.8
Inflation assumption	**2.8**	2.4	2.5

Notes to the financial statements

33. Retirement benefits – continued

(c) Financial Reporting Standard No.17 'Retirement Benefits' – continued

The SSAP 24 valuation at 31 October 2003 has been updated by the actuary on an FRS 17 basis at 31 December 2003. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the schemes' assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Expected rate of return	Value at 31 December 2003	Expected rate of return	Value at 31 December 2002	Expected rate of return	Value at 31 December 2001
	%	£m	%	£m	%	£m
Equities	7.3	209.9	7.0	189.8	7.5	227.8
Gilts	4.8	106.4	4.5	43.6	5.0	37.1
Property	7.3	50.1	7.0	46.4	7.5	36.9
Bonds	5.4	19.3	5.5	48.6	5.8	11.3
Total market value of schemes' assets		385.7		328.4		313.1
Present value of schemes' liabilities		(450.0)		(368.3)		(333.5)
Deficit in the schemes		(64.3)		(39.9)		(20.4)
Related notional deferred tax asset		19.3		12.0		6.1
Net pension deficit		(45.0)		(27.9)		(14.3)

Under the FRS17 transitional rules, the following disclosure is provided on the performance statements for the years ended 31 December:

	2003	2002
	£m	£m
Analysis of amount charged to operating profit		
Current service cost	11.8	11.9
Total operating charges	11.8	11.9
Analysis of amount credited to other finance income		
Expected return on pension scheme assets	20.6	22.6
Interest on pension scheme liabilities	(21.1)	(19.9)
Net return	(0.5)	2.7
Analysis of amount recognised in the statement of recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	29.3	(58.8)
Experience gains and losses arising on scheme liabilities	3.0	0.7
Changes in assumptions underlying the present value of scheme liabilities	(56.1)	(11.6)
Actual loss recognised in STRGL	(23.8)	(69.7)
Movement in deficit during the year		
Deficit in scheme at 1 January	(39.9)	(20.4)
Current service cost	(11.8)	(11.9)
Contributions	11.7	59.4
Other finance income	(0.5)	2.7
Actuarial losses	(23.8)	(69.7)
Deficits in scheme at 31 December	(64.3)	(39.9)

Experience gains and losses	%	%
Difference between expected and actual return on scheme assets	7.8	(18.4)
Experience gains and losses on scheme liabilities	0.7	0.4
Total amount recognised in statement of total recognised gains and losses	3.5	(19.1)

34. Assets and liabilities denominated in foreign currencies

The aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:

	Group 2003	Group 2002	Company 2003	Company 2002
	£m	£m	£m	£m
Assets	1,578.9	1,271.9	1,578.9	1,271.9
Liabilities	5,760.8	2,374.2	5,760.8	2,374.2

The Group's policy is to hedge all material foreign currency exposures through both on and off-balance sheet instruments.

35. Consolidated cash flow statement

(a) Reconciliation of operating profit to net cash flow from operating activities

	Group 2003	Group 2002
	£m	£m
Operating profit	263.0	243.2
(Increase) in prepayments and accrued income	(27.1)	(34.9)
Increase/(decrease) in accruals and deferred income	80.0	(43.9)
Provisions for bad and doubtful debts	13.9	11.5
Loans and advances written off, net of recoveries	(4.4)	(4.4)
Depreciation and amortisation	42.2	35.7
Interest on subordinated loans added back	63.0	45.3
(Decrease) in provisions for liabilities and charges	(19.3)	(18.3)
(Profit) on sale of investment securities	(3.2)	(6.6)
(Profit)/loss on sale of fixed assets	(7.7)	1.1
Other non-cash movements	1.1	(0.3)
Net cash inflow from trading activities	401.5	228.4
Net decrease/(increase) in collections/transmissions	22.9	(22.6)
Net (increase)/decrease in treasury bills and other eligible bills	(1.9)	2.1
Net (increase) in loans and advances to banks and customers	(5,259.6)	(860.1)
Net (outflow) from acquisition of mortgage book	(1,431.6)	(662.2)
Net (decrease) in non-recourse funding	(143.4)	(176.3)
Net increase in deposits by banks and customer accounts	786.9	640.9
Net increase in debt securities in issue	4,469.0	1,027.0
Net decrease/(increase) in other assets	12.1	(26.3)
Net increase/(decrease) in other liabilities	2.6	(42.4)
Net cash (outflow)/inflow from operating activities	(1,141.5)	108.5

(b) Analysis of changes in financing during the year

	Minority interest 2003	Minority interest 2002	Share capital (including share premium account and capital redemption reserve) 2003	Share capital (including share premium account and capital redemption reserve) 2002	Subordinated liabilities 2003	Subordinated liabilities 2002
	£m	£m	£m	£m	£m	£m
At 1 January	148.5	–	174.4	174.4	677.3	580.0
Net cash inflow from financing	–	148.5	–	–	444.2	97.3
Amortised issue costs	0.1	–	–	–	0.4	–
At 31 December	148.6	148.5	174.4	174.4	1,121.9	677.3

Notes to the financial statements

	Group 2003 £m	Group 2002 £m
35. Consolidated cash flow statement – continued		
(c) Analysis of changes in cash during the year		
At 1 January	116.0	114.7
Net cash inflow	83.8	1.3
At 31 December	199.8	116.0
Included in the Balance Sheet are the following amounts of cash:		
Cash and balances at central banks	12.8	19.9
Loans and advances to other banks repayable on demand	187.0	96.1
	199.8	116.0

The Group is required to maintain balances with the Bank of England which at 31 December 2003 amounted to £30.9m (2002: £25.1m). These balances are not included in cash for the purposes of the cash flow statement.

36. Directors' and Officers' transactions

The aggregate amounts outstanding at 31 December 2003 in respect of loans which were made available by the Group for persons who were Directors of Bradford & Bingley plc and their connected persons and for Officers of the Company were:

	Amount £m	Number
Directors' loans	0.3	1
Officers' loans	0.2	7

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
37. Capital and leasing commitments				
(a) Capital commitments				
Capital expenditure contracted for but not provided for in the Financial Statements	0.3	0.6	0.1	0.6
(b) Leasing commitments				
At 31 December the annual commitments under non-cancellable operating leases relating to land and buildings and equipment were as set out below by expiry date:				
Within one year	0.9	1.2	0.9	1.2
In more than one year but not more than five years	4.6	3.4	4.6	3.4
In more than five years	10.4	10.0	10.4	10.0
	15.9	14.6	15.9	14.6

38. Segmental information

The Group reports through three principal business segments: Lending, Savings and Distribution, supported by Treasury and Group Services. An analysis of the Group profit on ordinary activities before tax and Group total and net assets is provided in the table below:

	Lending	Savings	Distribution	Reserves & Treasury	Group Services	Joint Venture	Group
	£m	£m	£m	£m	£m	£m	£m
2003							
Profit before tax and exceptionals	**228.1**	**24.0**	**10.4**	**57.6**	**(57.1)**	**–**	**263.0**
Exceptional costs	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit on ordinary activities before tax	**228.1**	**24.0**	**10.4**	**57.6**	**(57.1)**	**–**	**263.0**
Total assets	**24,943.6**	**–**	**81.9**	**7,165.4**	**–**	**–**	**32,190.9**
Net assets	**1,082.4**	**–**	**6.2**	**213.2**	**–**	**–**	**1,301.8**
2002							
Profit before tax and exceptionals	212.8	30.1	28.0	64.5	(59.6)	(2.6)	273.2
Exceptional costs	–	–	–	–	(32.6)	–	(32.6)
Profit on ordinary activities before tax	212.8	30.1	28.0	64.5	(92.2)	(2.6)	240.6
Total assets	19,386.4	–	105.0	5,894.9	–	–	25,386.3
Net assets	1,042.0	–	10.1	209.7	–	–	1,261.8

Notes

(a) In order to analyse net interest by business segment it is necessary to apply a transfer price to the internal funding or liquidity requirement of each segment. Interest rates used for transfer pricing have been determined to retain the interest rate risk within Treasury. Costs have been assigned to each segment based on resources consumed. Transfer pricing in respect of mortgage origination by the Distribution segment has been determined on the basis of market rates for such activity.

(b) Exceptionals have not been allocated across business segments since they are the consequence of Group-level decisions.

(c) For the purposes of segmental information net assets have been allocated to Lending, Savings and Distribution on the basis of the regulatory capital framework. The segments are not allocated capital during the normal course of business, therefore segmental profits do not relate to these net assets.

(d) The Group operates entirely within the retail financial services sector and accordingly no segmental analysis of turnover has been presented. Please refer to the Financial Review for more information on segmental performance.

Notes to the financial statements

39. Acquisitions of businesses

The following acquisitions have been accounted for using the acquisition method of accounting:

Entity acquired	Date of acquisition
Alltel Mortgage Solutions Ltd	3 January 2003
Holden Meehan Ltd	2 June 2003
Aitchison & Colegrave Ltd	29 September 2003
Douglas Duff	1 October 2003

The entities were acquired for a total consideration of £20.0m, including acquisition expenses of £0.5m. Deferred consideration amounted to £8.2m, of which £0.8m was contingent on achieving certain performance criteria.

The impact on the Group's Balance Sheet of those acquisitions is set out below:

	Book value at acquisition date	Fair value adjustment	Provisional fair value
	£m	£m	£m
Loans and advances to banks	1.5	–	1.5
Tangible fixed assets	3.7	(0.2)	3.5
Intangible fixed assets	0.2	(0.2)	–
Other assets	0.6	–	0.6
Other liabilities	(1.3)	(0.1)	(1.4)
Net assets acquired	4.7	(0.5)	4.2
Consideration			
Purchase consideration and acquisition costs			20.0
Goodwill			15.8

The fair value adjustments are caused by the alignment of accounting policies, a re-assessment of certain provisions and the write-off of previously capitalised goodwill.